

The background of the entire page is a photograph of a modern, multi-story building with a glass facade, likely a city hall or government building. In the foreground, there are several palm trees and a blue metal pergola structure. The sky is clear and blue.

# **Budget Oversight Committee**

**Fiscal Year 2005  
Proposed Budget**

## **Report & Recommendations** **TO THE CITY COUNCIL**

**August 24, 2004**

**Laura Richardson, Chair**

**Councilwoman, Sixth District**

**Jackie Kell, Member**

**Vice Mayor, Fifth District**

**Tonia Reyes Uranga, Member**

**Councilwoman, Seventh District**

**City of Long Beach  
California**

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## **I. BUDGET OVERSIGHT COMMITTEE LETTER**

August 24, 2004

Honorable Mayor and City Council  
City Hall  
333 West Ocean Blvd 14<sup>th</sup> Floor  
Long Beach, California 90802

Dear Colleagues:

It is with great pleasure that the Long Beach Budget Oversight Committee transmits our proposed recommendations on the Fiscal Year 2005 (FY 05) Proposed Budget for your consideration.

Last year, the City Council endorsed the Three-Year Financial Strategic Plan (Plan), established the Budget Oversight Committee and adopted sound fiscal policies. These actions were unprecedented and were in response to the severity of the Long Beach financial crisis. The City Council accepted the responsibility to exert greater fiscal oversight and policy direction to ensure the City is providing the best service to the residents of Long Beach at the most efficient cost.

As noted by municipal consultant Len Wood, the City of Long has operated in a structural deficit for over 12 years. The City Council is united in our commitment to create financial solvency and must remain mindful that success will not be achieved without the following:

- Continual review of potential areas for cost reduction
- Review of possible accelerations of identified projected savings
- Consideration of revenue generating ideas
- Evaluation of resident, employee and innovation team suggestions
- Steadfast commitment to withhold new programs/services without new ongoing revenues to bear the expense

In conclusion, the Budget Oversight Committee hereby submits the following recommendations and stands ready to begin the next steps to achieve our Plan objectives towards prudent fiscal decisions for the future.

Respectfully Submitted,



Laura Richardson, Chair  
Budget Oversight Committee  
Councilwoman, Sixth District



Jackie Kell, Member  
Budget Oversight Committee  
Vice-Mayor, Fifth District

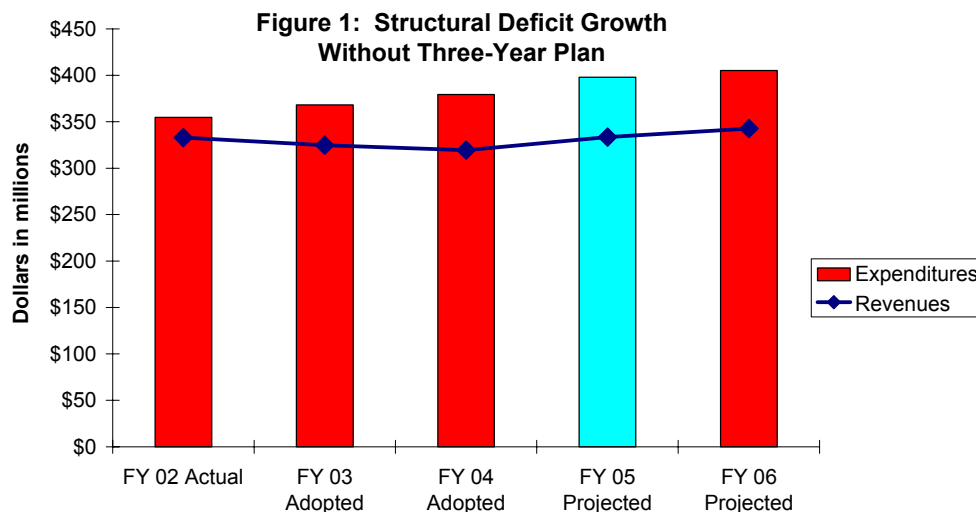


Tonia Reyes Uranga, Member  
Budget Oversight Committee  
Councilmember, Seventh District

## **II. EXECUTIVE SUMMARY**

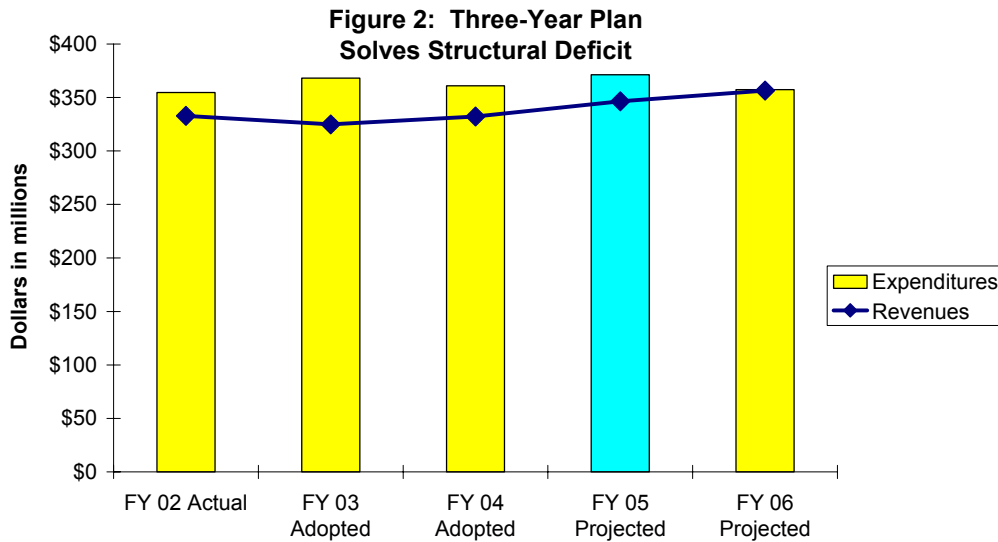
Rationally and responsibly bringing the City's expenditures and revenues back in line, while continuing to provide the core services the community expects, is a difficult task. As noted in the City Manager's Budget Summit presentation, the City of Long Beach communicated in January 2003 that the City suffered from a projected \$90 million deficit over three years. The structural deficit has existed for over 12 years, but was managed by balancing each annual budget through use of one-time revenues. This deficit occurred primarily due to increases in employee benefits, decreased revenue from the voter-approved Utility Users Tax reductions, and increased spending on City programs that did not have adequate revenue offsets identified. Factoring in additional growth in health care, general liability and workers' compensation costs, it was estimated that, had the City done nothing, the three-year deficit would have been approximately \$102 million by June 2004.

Given the information stated above, it is clear that had the City not adopted a Three-Year Financial Strategic Plan (Plan) and if the City was not committed to implementing continued structural deficit reductions, the City of Long Beach's financial solvency would be in jeopardy. Figure 1 shows how the structural deficit would have grown had the City Council not endorsed a Three-Year Plan.



The City Council, through the endorsement of the Plan, is on the right track to eliminate the deficit. The City has made tremendous progress through the implementation of the Plan, reducing approximately \$41 million of the projected \$102 million structural deficit in FY 04 alone. With continued perseverance and appropriate input from all stakeholders, we will reduce the deficit next year by \$33 million, while protecting core services to the community and staying on course to eliminate the structural deficit by the end of FY 06. Figure 2 shows the projected impact of the Plan on the structural deficit.

**BUDGET OVERSIGHT COMMITTEE REPORT AND RECOMMENDATIONS**  
**PROPOSED FISCAL YEAR 2005 BUDGET**  
**AUGUST 24, 2004**



Reducing the deficit while continuing to provide resources to critical programs is a top priority. The Budget Oversight Committee (BOC) plays an important role in advising the full City Council on budget-related issues, as we examine in detail the City Manager's proposed solutions to the structural deficit, as well as formulate our own recommendations to the City Council. This year, the BOC held 12 public meetings to closely examine the proposed reductions to all City departments, to ensure that they are consistent with the City Council's goals and community expectations. Fiscal oversight from the BOC is a critical step in the budget adoption process, in that it is an important step in the cycle of stakeholder involvement that includes the community, City staff, employees, and elected officials. This year's process included an unprecedented review of enormous detail by the BOC. We wish to thank the City Manager for continuously increasing the level of transparency of the annual budget process.

The BOC agrees with the general direction of the Proposed Updated Three-Year Plan and the FY 05 Proposed Budget, but identifies in this report areas of concern and recommended adjustments. The BOC strongly asserts that any item removed from the budget be replaced with an offsetting structural deficit solution, so that the City can continue on the path towards fiscal solvency. As such, we identify a number of areas the City Council can consider as alternatives. The City must also continue to examine best practices from other cities on how they address their own structural deficits. To that end, Attachment B provides information from the City of Santa Cruz, which provides detail on potential revenue options to help address their structural deficit.

The primary objective of this report is to carefully evaluate and recommend potential reductions and areas of optimization that would enable the delivery of a balanced budget and protection of core services and programs that reflect the priorities of Long Beach residents, businesses and the City Council.

### **III. CITY COUNCIL PRIORITIES**

In January 2004, the City Council produced the following set of goals, to establish our strategic vision for the City and guide efforts citywide. These goals, along with City's 2010 Strategic Plan, provide a roadmap for the City to follow to ensure that Long Beach remains a beautiful, safe and healthy community.

- Further reduce crime, particularly violent crime
- Enhance neighborhood economic development efforts, particularly on the commercial corridors
- Improve environmental conditions in the City of Long Beach
- Improve the quality of life in the neighborhoods
- Expand the community's involvement in the workings of Long Beach government
- Promote workforce and business development efforts so as to create new jobs; ensure Long Beach becomes more business friendly
- Support programs which encourage the public's health and well being
- Promote quality housing development; improve home ownership opportunities for Long Beach residents
- Improve the transportation system to efficiently and effectively move goods and people through the city without negatively impacting the neighborhoods
- Adopt an annual budget that is structurally balanced

#### **IV. CITY COUNCIL FINANCIAL POLICIES**

In addition to setting City Council priorities, we also adopted a set of financial priorities based on the recommendations from the Budget Oversight Committee and City staff that ensure the City will not fall into a structural deficit in the future. These policies provide clear direction on timely and clear reporting of the City's financial situation, appropriate use of one-time revenue, debt and reserves, as well as mandating that the City create and implement a plan to immediately address any future structural deficits. With these sound policies in place, we can be assured that once our City is again on sound financial footing, the City can look forward to good fiscal health for the future.

- 1) Structurally Balanced Budget
- 2) Report on How the Budget is Balanced
- 3) General Fund Reserves
- 4) Use of One-Time Resources
- 5) Use of New Discretionary Revenue
- 6) Accounting and Financial Reporting
- 7) User Fees and Charges
- 8) Grants
- 9) Long-Term Financial Plan
- 10) Debt Issuance

Please see the preface of the City Manager's Proposed FY 05 Budget for more detail on the City of Long Beach's Financial Policies.

## **V. PROPOSED BUDGET ADJUSTMENTS RECOMMENDATIONS**

After extensive review of the Proposed Updated Plan and community comments from the Budget Summit and other outreach efforts, the Budget Oversight Committee recommends that the City Council consider the following adjustments to the Plan. We believe the restoration of these programs will preserve a high quality of life for our community and are consistent with the 2010 Strategic Plan and the City Council's goals.

| <b>Proposed Adjustment</b>                                      | <b>Department</b>            | <b>Primary Strategic Plan Goal</b> | <b>Amount</b>    |
|---|------------------------------|------------------------------------|------------------|
| Restore proposed reductions to youth library programming        | Library Services             | N.1                                | \$168,000        |
| Restore proposed day camps reductions                           | Parks, Recreation and Marine | Y.1                                | \$143,000        |
| Remove proposed transfer of extended day program to non-profits | Parks, Recreation and Marine | Y.1                                | \$88,000         |
| Restore proposed reduction in tree trimming cycles              | Public Works                 | E.2                                | \$200,000        |
| <b>TOTAL PROPOSED ADJUSTMENTS</b>                               |                              |                                    | <b>\$599,000</b> |

The Budget Oversight Committee supports the other proposed structural deficit reductions contained in the FY 05 Proposed Updated Plan that are not specifically mentioned above. No adjustments are recommended at this time in the areas of City Manager, Community Development, Financial Management, Fire, Human Resources, Health and Human Services, Long Beach Energy, Oil Properties, Planning and Building, Police, and Technology Services.

However, this endorsement is based upon the following caveats:

- ✓ The BOC supports optimization of the crossing guard program, provided that this does not entail contracting-out this service at this time.
- ✓ The BOC supports the \$1.5 million target for optimization in the Fire Department, provided that this does not include the closure of fire stations without further discussion.
- ✓ The City Manager is strongly encouraged to explore public-private partnerships to support reductions to the Library book, materials and supplies budget. Should this not be feasible, the BOC believes further discussion on alternatives would be warranted.
- ✓ The City Manager is strongly encouraged to establish an aggressive book donation program that focuses on increasing the City's inventory of best seller books.



## **VI. PROPOSED OFFSETS AND ALTERNATIVES**

The Budget Oversight Committee strongly recommends that alternatives be identified to replace any item that is removed from the FY 05 Proposed Budget. During the course of our deliberations, we explored a multitude of other ideas that could reduce costs or structurally increase revenue. The following list provides potential options to offset the adjustments we propose for the FY 05 Proposed Budget. We further recommend that any excess amount from these potential structural deficit solutions should either be considered for application towards the structural deficit or be dedicated for an Infrastructure Reserve Account.

**1) Implement the following fee adjustments to match fees charged in comparable jurisdictions to better recover City costs (approximately \$400,000 or more):**

- Increase Revenue From Police Alarm Permit Fees (\$200,000)

| <b>Proposed Fee Adjustment</b>   | <b>Current</b> | <b>Proposed</b> |
|--|----------------|-----------------|
| Business Alarm Permit  | \$25           | \$30            |
| Residential Alarm Permit   | \$10           | \$30            |
| 3 <sup>rd</sup> False Alarm Response<br>(First two responses are free) | \$50           | \$60            |
| 4 <sup>th</sup> False Alarm Response                                   | \$100          | \$110           |
| 5 <sup>th</sup> False Alarm Response                                   | \$150          | \$160           |
| 6 <sup>th</sup> or More False Alarm Response                           | \$300          | \$310           |

Note: False alarm response fees are for a period of 12 months. Proposed increases are based on the median fees charged by comparable jurisdictions.

- Accelerate Code Enforcement revenue where possible from FY 06 into FY 05 (approximately \$200,000)
- Direct City Manager to increase parking revenues citywide through an analysis of rates for surface lots and garages, extension of parking hours for metered parking, optimization of parking enforcement and other methods of increasing parking revenue. For example, extending parking meter hours from their current 9:00 AM to 6:00 PM to a possible 8:00 AM to 9:00 PM could potentially generate \$100,000 in new revenue. Exact revenue estimates from this recommendation are yet to be determined, pending further review from the City Manager.

**2) Optimize Gang Prevention Functions (Approximately \$100,000)**

- Freeze current vacancies to generate temporary salary savings
- Conduct a comprehensive study of all youth-related services to identify areas for optimization, reduction of duplication, increased accountability and effective service delivery.

**3) Other areas for consideration (Savings to be determined)**

- Direct the City Manager to review the number and use of Public Information and Public Affairs Officers for optimization and potential savings. There are currently multiple staff in departments such as: City Manager; Fire; Harbor; Police; Parks, Recreation and Marine; and Public Works (Airport). This may be an area where the City can reduce duplication of effort and generate potential savings.
- Review the possibility of cost recovery for violations from California Code Sections 53151, 53154 and 53155. These sections address reimbursement for arrest time, property repairs, and other similar areas.

## **VII. PROPOSED POLICY RECOMMENDATIONS**

The Budget Oversight Committee offers the following policy recommendations that will enhance focus on increasing City revenues, allow the City Council to be more involved in the contracting-out process, and create a mechanism for prudent investments in the City's infrastructure.

- 1) Enhanced role of the City Council (and/or the appropriate Council Committees) in the Contracting-Out Evaluation Process. (Attachment A)
  - ✓ Include City Council involvement during the first step: Identifying Potential Contracting-Out Opportunities
  - ✓ Include City Council involvement during the third step: Identification and Verification of City Costs
    - ❖ Cost identification should include monitoring costs, callbacks, over-runs, and other appropriate costs.
    - ❖ Renewals should include a review of contract compliance (health and safety, validation of actual vs. projected costs, etc.)
- 2) Recommend the City Manager focus greater attention on contracting-in and increasing revenue generation. In FY 02, Long Beach generated \$17 million through contracting-in, \$20 million in FY 03 and through April 2004 the City has generated \$9.5 million; a straight-line projection would estimate a total of \$20 million for FY 04. Although staff has worked aggressively to evaluate and implement revenue-generating ideas from the public, employees and the innovation team, additional focus is still needed to maximize these opportunities.
- 3) Given the recent Infrastructure and Facilities Report that calls for an investment of over \$300 million over 10 years for "immediate deficiencies," we recommend the creation and funding of an Infrastructure and Maintenance Reserve Account. The City Council should strongly consider strengthening our fiscal policies to include an allocation to this Reserve Account of no less than 3 to 5 percent from any unexpected one-time revenues for infrastructure and maintenance needs.
- 4) The Budget Oversight Committee should initiate an immediate review and discussion of new revenue strategies, including involvement from the community, staff, City Council and other stakeholders. This recommendation is further explained in the next section of this report.

## **VIII. REVIEW OF NEW REVENUE OPTIONS**

While the Proposed Updated Three-Year Plan focuses primarily on reducing the deficit through cost reductions, structural revenue solutions can also be an appropriate method of addressing the structural deficit to avoid resorting to reductions to core public services. Prior to the recommendation of any new tax or other significant revenue options, we recommend the following:

- ✓ The Budget Oversight Committee convene a working group of the community, staff, stakeholders, and other interested City Council members to review long-term issues facing the City and develop strategies to fund them.
- ✓ Review and discuss data which demonstrates the reasons for Long Beach's fiscal crisis including information on population growth changes, reduction in revenues, increase in workers' compensation, reinstatement of PERS payments and other costs that affect the City's structural deficit.
- ✓ Review and discuss data on the current measures being applied to eliminate projected structural deficits such as the Three-Year Financial Strategic Plan, financial policies and budget reductions.
- ✓ Review and discuss data pertaining to major long term priorities that require additional funding that are not currently planned to be supported through the General Fund.

This discussion of new revenue opportunities does **not** assume one or all financing options for implementation. The following information is a list of potential long-term funding strategies that other municipalities have utilized to help address their needs and maintain high service levels to their communities. Issues for consideration and points for further discussion may include:

- ✓ Fire Assessment District
- ✓ Parking Lot Tax
- ✓ Library Special Tax or Assessment

As part of the Three Year Plan, the following specific tax initiatives have received significant consideration as they may not affect the majority of Long Beach residents and are worthy of future discussion and analysis.

**1) Transient Occupancy Tax (TOT)**

One current proposal would be to increase the current TOT from 12 to 15 percent. Discussions include dedicating 1 percent to various agencies with 1 percent dedicated to the General Fund to help address the structural deficit. Each 1 percent would generate approximately \$1.1 million. Dedicating these revenue to a specific program would require two-thirds voter approval.

**2) Oil Production Tax**

The City currently levies a tax of \$0.15 per barrel of oil produced in Long Beach. A study of comparable cities reveals that the average tax is approximately \$0.25 per barrel. Increasing this tax to \$0.30 per barrel would generate approximately \$2,000,000 for the General Fund. If this tax were to be specifically earmarked for a program, it would require two-thirds approval, otherwise it would require a simple majority. Applying a Consumer Price Index (CPI) inflation escalator could also ensure that the future value of the revenue is consistent with the period in which the tax is enacted.

Attachment B is a report prepared for the City of Santa Cruz, that provides more information on potential revenue sources, some of which may be appropriate for the City of Long Beach to consider.

## **IX. RECOMMENDATIONS FOR FUTURE CONSIDERATION**

The following are additional recommendations that should be evaluated but require further financial data and analysis:

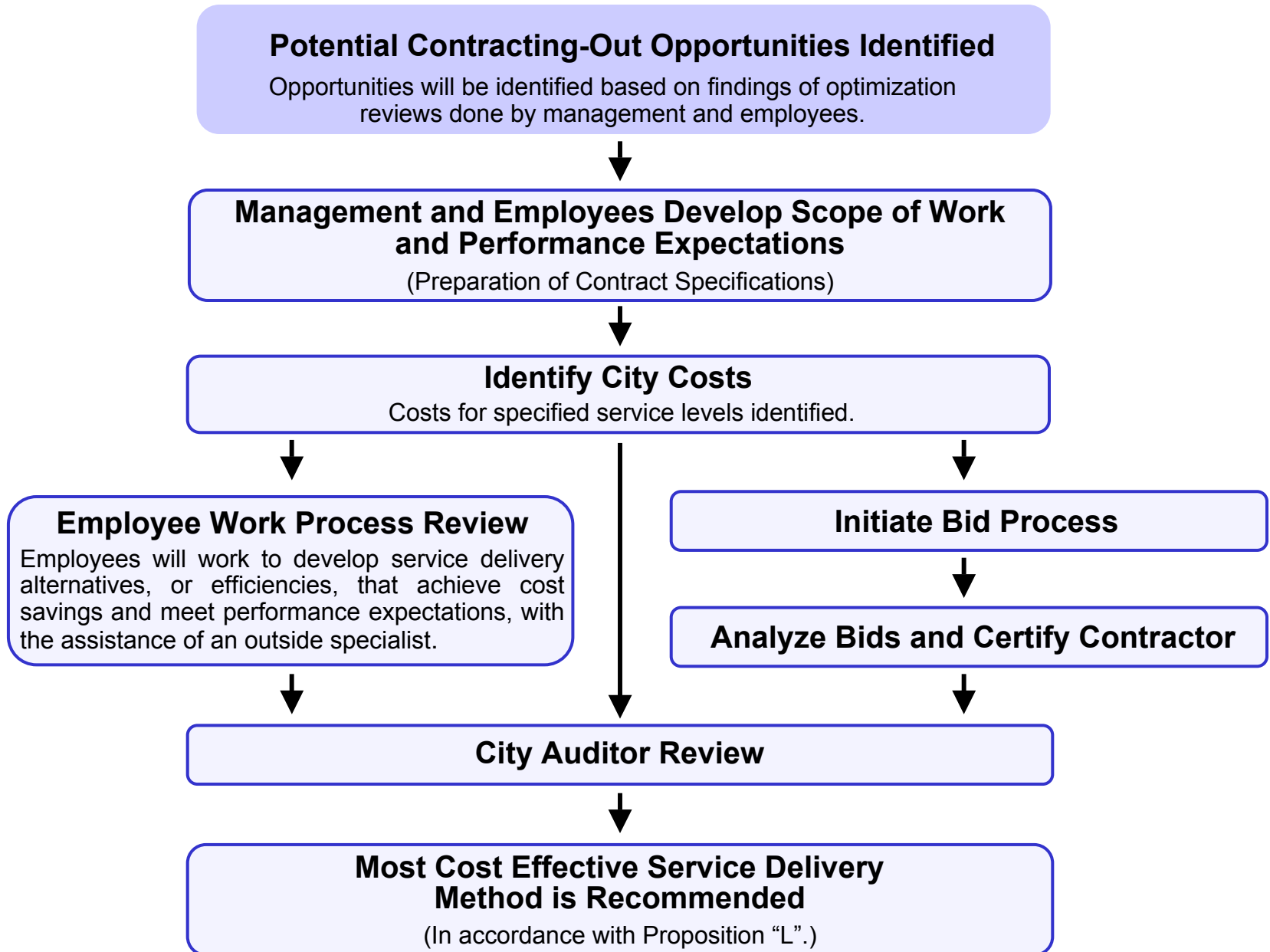
- 1) Continue further discussions of outstanding resident, employee and innovation team recommendations.
- 2) Review outstanding Redevelopment Agency loan repayments that could be accelerated. Currently the outstanding balance owed to the General Fund is approximately \$97 million.
- 3) Consider acceleration (if possible) of Fleet reductions planned for FY 06 into FY 05.
- 4) Formulate policy and begin lobbying on the state and federal levels for transportation policy amendments that could include urban local streets, school bus traveled routes, and other initiatives.

## **X. RECOMMENDED ACTIONS**

It is respectfully requested that the City Council approve the FY 05 Proposed Budget, with the following proposed amendments and recommendations:

- 1) Recommend the City Council adopt the Proposed Updated Three-Year Plan;
- 2) Recommend the City Council support the creation of a rolling Three-Year Plan that will address FY 05, FY 06 and FY 07;
- 3) Support the City Manager's proposed enhancements, which have been identified as core services, community priorities and/or as Mayor and City Council priorities;
- 4) Support the fee increases and adjustments proposed by the City Manager, Board of Water Commissioners and Budget Oversight Committee;
- 5) Recommend that the CalPERS payment not be deferred;
- 6) Recommend the re-instatements of tree trimming, day camps, extended day care and library educational programming currently proposed for reduction;
- 7) Recommend the creation of an Infrastructure and Maintenance Reserve Account;
- 8) Recommend an enhanced role of the City Council and/or the appropriate Council Committee in the Contracting-Out Evaluation Process;
- 9) Recommend staff focus on areas identified as potential resources to offset budget reinstatements including recommendations on pages eight through 13 in this report.
- 10) Concur with the Mayor's recommendation to evaluate areas such as fleet services, technology services, contract contingencies and consulting contracts, and various non-personal services expenses be explored for additional optimization opportunities.
- 11) Concur with the Mayor's recommendation to support the development and/or enhancement of existing partnerships with the private and non-profit sectors to help augment support and/or funding for key services.
- 12) Concur with the City Manager's recommended reviews and optimization efforts for FY 05 including Youth Services, Information and Technology, Health Insurance, Parking Management, Billing and Collections, Ambulance Billing, Towing Operations, Payroll Services, Business License Processing and School Crossing Guards.

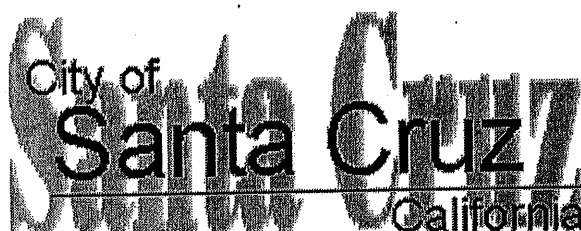
# Contracting-Out Evaluation Process





# CONSIDERATION OF REVENUE OPTIONS FOR THE CITY OF SANTA CRUZ

JULY 2004



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## OVERVIEW

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### Introduction

As the "county seat," the City of Santa Cruz encompasses approximately 16,000 parcels over an area of 12 square miles and services an estimated population of 55,600 residents. As many cities today, the City of Santa Cruz strives to find a means of supporting their growing population amid increasing service costs, reductions from state funding sources, restricted local revenue sources including sales tax, Ad-Valorem revenues and the City's utility tax. Consequently, the City is now facing significant staffing and service issues that require the City to seek alternative approaches of generating revenue to sustain and enhance many of the City's existing improvements and services that have been reduced to minimal levels in efforts to balance the City budget.

Although much of the fiscal anxieties that cities are facing today is directly related to the State's financial issues and the continued practice of shifting this burden on to local agencies, other factors such as the current economic downturn and rising energy costs coupled with property tax revenue limitations and the approval requirements placed on agencies to raise additional revenues are common concerns for most cities. Just as Proposition 13 limited increases and the distribution of ad Valorem taxes, the passage of Proposition 218, approved by the California voters in November 1996, further restricted revenue-raising discretion of California local governments. Although the California voters only approved this constitutional amendment (Articles XIIC and XIID) by a relatively narrow margin, (56.5% to 43.5%), its provisions imposed significant constraints on local agencies including specific voting thresholds and approval requirements for both new and existing local revenue sources.

Although Articles XIIC and XIID have established new requirements for voter or property owner approval for imposing taxes, assessments, and property related fees and charges; it did not eliminate the choices agencies have to fund local services. The measure did however, cause agencies to do two important things with respect to their choice of financing options:

- It required that the agency demonstrate that both new and existing taxes and assessments as well as fees and charges (revenue sources) comply with the provisions of the Articles.
- Agencies must give greater consideration to the type of financing mechanisms they choose to use in facilitating the improvements and/or services desired. (Public support is essential).

Although the City was able to previously gather the support necessary to retain its exiting utility tax (general tax), and most recently (March 2004) gained voter approval for a quarter percent sales tax increase for the next five years on sales within the City (estimated to generate approximately \$2 million annually), the City is still faced with the need to consider new revenue sources to finance many of the City's activities and services that are being provided at less than desired or needed levels.

Based on the revenue raising efforts the City has implemented to date, obviously the City is well aware that most alternatives for generating new revenues require approval of the registered voters or property owners by either a simple majority or two-thirds vote, depending on the chosen method(s). While the City has been effective in taking steps to stabilize its current economic situation by seeking support for additional revenues, the City has also made several reductions in the last 20

months totaling over \$7 million in General Fund expenditures, including the elimination of 60 full-time equivalent positions.

However, to ensure the long-term quality of life for its residents and property owners, the City of Santa Cruz will likely find it necessary to ask its constituents to financially support the formation of one or more special assessment districts or additional tax measures aimed at enhancing both the current and future levels of service and public infrastructure.

Accordingly, MuniFinancial has prepared this Report to outline the most commonly used financing mechanisms that may be utilized to address the City's revenue challenges. The goal of this Report is to assist the City with identifying and developing viable approaches to raising funds through new assessments or taxes to offset the City's current and ongoing revenue shortfalls. Once the City has identified the most appropriate financing mechanism (s) to pursue, MuniFinancial can provide the services necessary to bring those assessments or taxes to the public for approval including:

- Assisting in identifying the community's support for various alternatives;
- Developing the appropriate financing structures (zones, service levels, rates and methods);
- Coordinating a public communication program;
- Preparing documentation required for assessments or tax measures; and
- Performing mail-out balloting conducted under the provisions of the California Constitution Article XIID for assessment and property-related revenue measures:

In our experience, a well-designed-financing plan, partnered with opinion polling and effective community outreach efforts, can greatly enhance the chances of success in securing community support and approval for City projects; and MuniFinancial is well equipped to help the City.

## **Bases of Analysis**

In the preparation of this Report, MuniFinancial conducted a preliminary analysis of recent City budgets focusing on existing expenditure and revenues for specific City services that may be and are often financed by assessments or special taxes, as well as long-term capital improvement needs (streets in particular). A preliminary City database was prepared identifying specific parcel information related to properties within the City utilizing available data from both the County and City. This database was used to establish an initial rationale upon which assessments or taxes may be distributed to various properties within the City and to evaluate possible revenues that may be generated at key rate thresholds. In addition, the location, extent and distribution of various improvements and facilities such as landscape medians, street lighting, traffic signals, storm drain infrastructure and parks; and their relationship to properties within the City have been reviewed to determine if the improvements, facilities or services provide benefits to isolated areas or the City as a whole.

In addition to a discussion on taxes, a list of various funding mechanisms (California Statutes and Government Codes) and the improvements or services applicable to the legislative authorities has been developed for the City and presented in this Report. Although the list is not inclusive of all possible financing authorities it does identify most of the options commonly used by many California cities. Based on our analysis of the City's budgets, property data and the City's various improvements and facilities, the Report identifies and discusses specific financing mechanisms,

statutes and code sections that are most appropriate for the City of Santa Cruz to consider and have been frequently utilized by other agencies in recent years. Although most financing alternatives target specific improvements, services and uses (funding restrictions), as a charter city, the City of Santa Cruz has the ability to modify and combine various statutes to address its particular needs. (However, caution must be exercised if the City develops its own modified legislative authority if such modifications deviate significantly from the existing legislative authority or case law).

Whether the City chooses to pursue a tax or assessment utilizing one of the existing statutes or combination of statutes for implementation, the determination should be based on several important considerations and questions:

- Are the targeted improvements/services viewed by the public as issues that will impact their quality of life;
- What improvements/services do voters and property owners consider to be the most essential or critical and which require the most attention;
- What amount of revenue is required to meet current needs
  - Are the baseline costs and needs more or less than the current amount budget;
- How much revenue would be required to ensure long-term stability
  - What is a reasonable or acceptable level of service
  - What is the cost to enhance existing levels of service,
  - What are typical standards used in other cities
  - What is the cost of ensuring sufficient funds to address reoccurring upgrades or renovations for the future
  - What impact will inflation have on future costs;
- Benefit nexus and anticipated cost per residential unit;
  - Is the cost per unit reasonable for the improvements or services;
  - Will the property owners or tax payer see the benefits of the assessment or tax;
  - What is the threshold (amount) that property owners or tax payer are willing to support for a particular improvement or service;
  - Can a special benefit nexus be clearly established and defended or is the benefit merely reasonable and more general in nature;
- Stability of the revenue source;
  - Does a short-term financing plan meet the City's goal or is an on-going revenue source required;
  - Will the revenue generated today be enough five, ten or even twenty years from now? Should the revenue source include an inflationary adjustment or a cap;

- Approval requirements;
  - Does the financing plan require a simple majority approval or a two-thirds voter approval;
  - What are the costs associated with an election versus a property owner ballot;
  - Is there an annual renewal process or annual public hearing requirement;
- Legal constraints on the use of the revenue generated and approval requirements.

Clearly the City is faced with many difficult decisions for determining a course of action to improve the financial stability of the City. Although Special Assessment Districts or Special Taxes are often a small part of the big picture, the costs associated with the improvements and services these financing mechanisms may fund ultimately impact the use General Fund monies and a City's financial stability. However, like most issues facing the City, there is typically no one clear answer to address the situation and with each alternative there are usually more options to consider as well as advantages and disadvantages to any approach. The dynamics of identifying possible revenue mechanisms, then determining which funding source or sources to pursue is obviously a difficult task, but this report should provide sufficient back ground information to aide the City in developing appropriate alternatives.

## MUNICIPAL REVENUES

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### Major Propositions Affecting Municipal Revenues

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#### Proposition 13; (1978)

On June 6, 1978, the California voters approve Proposition 13, which added Article XIII A to the state Constitution. The proposition established a limitation on the ability of local governments to impose property taxes, and to require that locally imposed special taxes receive two-thirds voter approval. In essence, the amendment stated that the maximum amount of any ad Valorem tax on real property (any tax derived from the value of real property) shall not exceed one percent of the full cash value of such property and that special taxes that may be imposed by cities, counties and special districts require a two-thirds vote of the qualified electors.

Since the enactment of Proposition 13, a series of propositions passed by California voters has impacted city revenues and influenced how these moneys can be spent. Most are modifications to the property tax limitation imposed by Proposition 13, the most notable of which were Proposition 4, "The Gann Appropriations Limit Initiative" and Proposition 218 "The Right to Vote on Taxes Act". Clearly Proposition 218 has had a significant impact on local agencies in recent years and this proposition is discussed in much greater detail later in this Report. The following are some of the key propositions that have impact municipal revenues and a brief summary of those propositions.

#### Proposition 4; (1980)

Proposition 4 known as the Gann Appropriations Limit Initiative, was drafted as a companion measure to Proposition 13 and added Article XIII B to the California Constitution. The provisions of the proposition limited growth in government appropriations to changes in population and inflation. The appropriations limit is determined by:

- Multiplying the limit for the prior year by the percentage change in the cost of living (or per capita personal income, whichever is lower); then,
- Multiplying this figure by the percentage change in population.

If a city's tax proceeds are greater than the limit, the city must either return excess revenues to taxpayers or receive voter approval to increase their spending limits. Voter approval, to increase the spending limits is not permanent however, and the authority to spend the excess must be reaffirmed every four years. The proposition affected both state and local governments and also included a requirement that the state reimburse local governments for state imposed mandates for new programs and services. (Refer to Government Code, Sections 7900 - 7914).

### **Proposition 46; (1986)**

This constitutional amendment dealt with General Obligation Bonds and allowed local governments to increase the property tax rate above 1 percent for the period necessary to pay off new general obligation bonds under two conditions:

- Two-thirds of those voting in a local election must approve the issuance of the bonds, and
- The money raised through the sale of the bonds must be used exclusively to purchase or improve real property.

The passage of this initiative allowed local agencies the dedicated revenue source necessary to pay off general obligation bonds.

### **Proposition 62; (1986)**

Proposition 62 established the voting requirements for General and Special Taxes. In 1982, the California Supreme Court in *San Francisco versus Farrell* made a distinction between "special taxes," which are used for a specific purpose and which require a two-thirds popular-vote, and "general taxes," which go into the general fund and historically had only required a vote of the governing body. Proposition 62 required instead, that general taxes be approved by a majority of the popular vote. Later, a number of appellate court decisions declared the majority vote requirement for general taxes in Proposition 62 unconstitutional, temporarily invalidating that portion of the initiative. However, in 1995 the California Supreme Court reinstated the voter approval requirement, finding it valid. Current interpretations of Proposition 62 require that an ordinance be approved by two-thirds of the governing body in order to raise local general taxes. The statute also specifies that the ordinance must state the type of tax, rate and method of collection. (Refer to Government Code, Sections 537200 - 53730).

### **Proposition 172; (1993)**

This measure placed a half-cent sales tax increase for local public safety in the Constitution effective January 1, 1994. The tax is imposed by the state and distributed to cities and counties. The revenues are allocated to cities and counties based on their proportionate loss from the property tax transfer enacted with the 1993-94 state budget. These funds are earmarked for public safety. Cities are eligible to receive about 6 percent of the statewide revenue from this tax. A city's shares may be forfeited if the city decreases funding for public safety services below the amount funded in fiscal year 1992-1993. Cities with no property tax or that had no property tax loss pursuant to the 1993-94 state budget do not receive a share of Proposition 172 sales tax revenues. (Refer to California Constitution Article XIII, Section 35; and Government Code, Section 30052)



## Proposition 218; (1996)

This Constitutional amendment (Articles XIIC and XIID) established new procedural steps for the enactment of assessments and certain fees, reiterated Proposition 13's requirement for two-thirds voter approval for special taxes, and made the majority voter approval for general taxes constitutional (consistent with the provisions of Proposition 62). The vote on general taxes must be held at a regularly scheduled election when members of the City Council are elected (except in emergency situations). The major emphasis of this Constitutional amendment established a series of substantive and procedural requirements related to the imposition and levy of benefit assessments on real property as well as new substantive and procedural steps necessary to impose property-related fees or charges.

## Common Municipal Revenues

In addition to revenue otherwise allocated to them generally by state subventions, California cities may raise revenues from within its jurisdiction in a variety of ways including taxes, assessments, fees and charges as well as more entrepreneurial and creative methods of raising revenues such as, entitlement programs, grants, franchise fees and issuing bonds and other debt instruments to finance municipal improvements.

## Taxes

For a general law city, the power and authority for a city to tax is not inherent but is instead derived from Article XIII, Section 24 of the California Constitution. In short, the Legislature may not impose taxes for local purposes, but may instead authorize local governments to impose them including transient occupancy tax, sales tax, documentary transfer tax, etc. For a charter city such as Santa Cruz, the power to tax is derived from Article XI, Section 5 (a) of the Constitution. While general law cities look to the general laws for the types of taxes they may impose, charter cities are limited only by their charters and by certain provisions of the State's Revenue and Taxation Code. Neither general law cities nor charter cities need a specific grant of authority from the Legislature to impose a city tax, such as an admissions tax or utility users tax.

The provisions of the California Constitution established by Proposition 13 (Article XIII A) and reaffirmed by Proposition 218 (Articles XIIC and XIID) defines all taxes are either "general" or "special" and makes specific distinctions between "general" and "special":

- A "general tax" refers to any tax imposed for general governmental purposes.
- A "special tax" means any tax imposed for specific purposes including taxes imposed for specific purposes that are placed into a general fund.

Prior to Proposition 13, each city annually imposed a property tax at the rate necessary to raise sufficient revenue to provide municipal services and facilities. After Proposition 13, a countywide property tax rate was established in the Constitution. One of the most significant developments in the law of local taxation since the adoption of Proposition 13 was the

California Supreme Court's determination that Proposition 13 allowed the state Legislature to allocate and distribute the property tax. The court's decision basically transformed what was once considered a local tax into a state-administered tax.

## **Assessments**

Assessments commonly referred to as "Benefit Assessments", are essentially charges levied on real property to pay for public improvements or services provided within a pre-determined district or area based on the special benefits each parcel receives from the improvement or services. These benefit assessments are not considered taxes or fees and are imposed as a means to provide special funding for bonded indebtedness (generally large capital construction projects) or to provide pay-as-you-go financing for specific improvements or services. General law cities must have express legislative authority to levy specific benefit assessments while charter cities are authorized to develop their own procedures for levying benefit assessments. There are a number of specific statutes that provide for different types of benefit assessment districts related to construction, maintenance, rehabilitation and bonding authority. Although each statute provide for specific improvements or services (limited scope), collectively the statutes provide the City the authority to implement assessments for parks, landscaping, street lighting, parking, flood and drainage control, street and sidewalk improvements, fire services, and a number of other improvements and services. Although each statute may have certain requirements or provisions for establishing an assessment, they each have two basic requirements imposed by Proposition 218: properties may be assessed for only special benefits; and property owners must be allowed to participate in an assessment ballot proceeding to support or oppose the assessment.

## **Fees, Charges and Rates**

Fees are distinguished from taxes in two principal ways:

- (1) The amount of the fee may not exceed the estimated reasonable cost of providing the particular service or facility for which the fee is charged (the amount of a tax is not subject to any such restriction); and
- (2) The service or facility for which the fee is charged bears a relationship to the person or entity paying the fee.

Fees and charges fall into three general categories:

- (1) User fees charged to a person or entity using or consuming a city service;
- (2) Development fees charged to a person or entity for the privilege of developing private property (Generally a means of defray the cost of public facilities and services necessary to serve the development); and
- (3) Regulatory fees charged to a business to fund a program established to mitigate the negative effects of the business on the community.

Cities have the general authority to impose fees, rates and charges within its jurisdiction for police, sanitary, and other local ordinances and regulations that are not in conflict with general laws under the powers defined by Article XI, Section 7 of the Constitution, and under the public works power as defined in Article XI, Section 9. The specific requirements, restrictions and procedures in state statutes as well as the provisions of the Constitution must be followed to impose various types of fees. Proposition 218 (Specifically Article XIIID, Section 6), established a subset of user fees described as property-related fees imposed to fund a property-related service.

## **Other Common Revenue Sources**

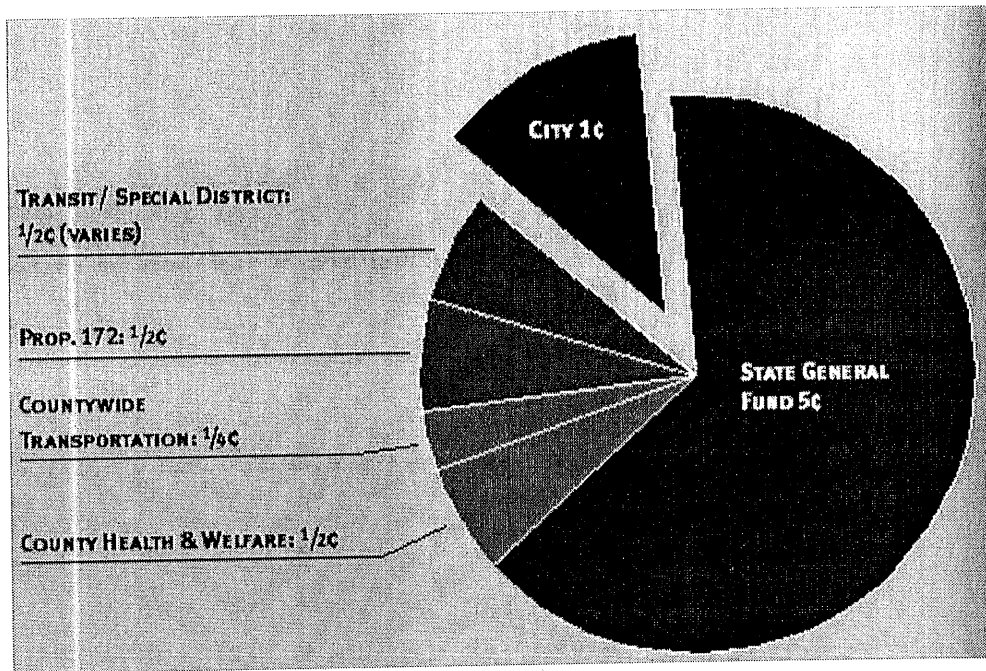
While taxes, assessments, fees and charges are often the tools that municipalities will implement to generate significant revenues for the City, there are several other revenue sources that are available and utilized by many municipalities including:

- **State Subventions** — defined as “money granted to support or aid some cause, institution or undertaking; a subsidy.” The state and county levy certain taxes that are proportionately allocated to cities including motor vehicle license fees, homeowner's property tax relief and the motor vehicle gasoline and diesel fuel tax.
- **County and Federal Government Programs** — Cities often receive forms of support for programs such as entitlement programs and one-time grants for which applications must be submitted.
- **Debt Financing** — Cities may issue bonds and other debt instruments to finance municipal improvements and services. The authorization to issue these instruments varies.
- **General Activities** — Recently, in an effort to find new revenue sources, cities have looked at ways to become more entrepreneurial. Cities are authorized to raise revenue through several activities, including: franchising public utilities (cable television and solid waste enterprises); licenses and permits; intergovernmental transfers; rents; concessions; sale of property; investment earnings; and fines.

## Typical City Revenue Sources

The following diagrams provide a graphic illustration of revenues available or utilized by most California Cities. These diagrams are based on statewide averages and may be significantly different for the City of Santa Cruz, but provide a useful comparison.

### *Typical California City Revenues\**



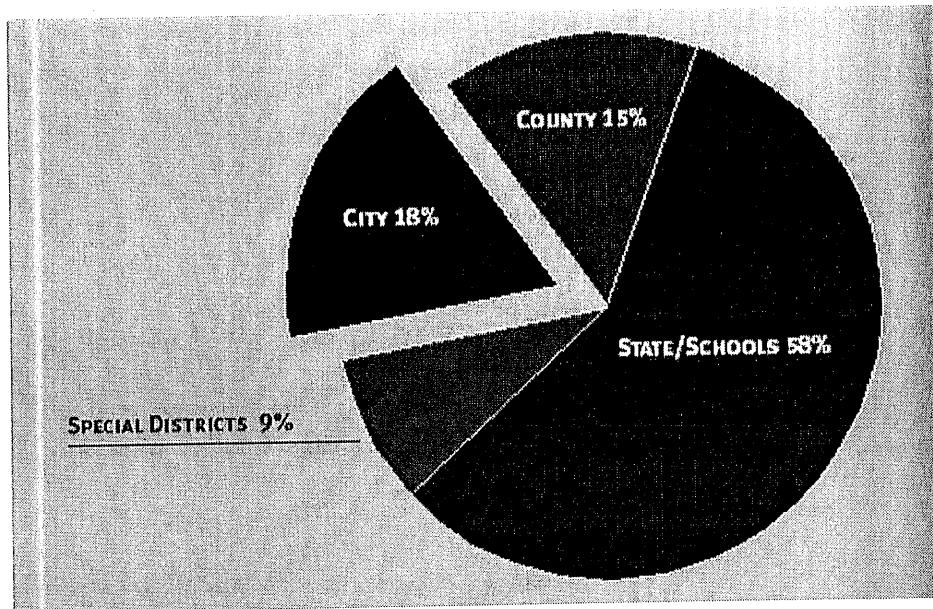
Based on total cities statewide.

Source: Coleman Advisory Services, state controller

### *Property Tax: How Much Goes to a Typical City*

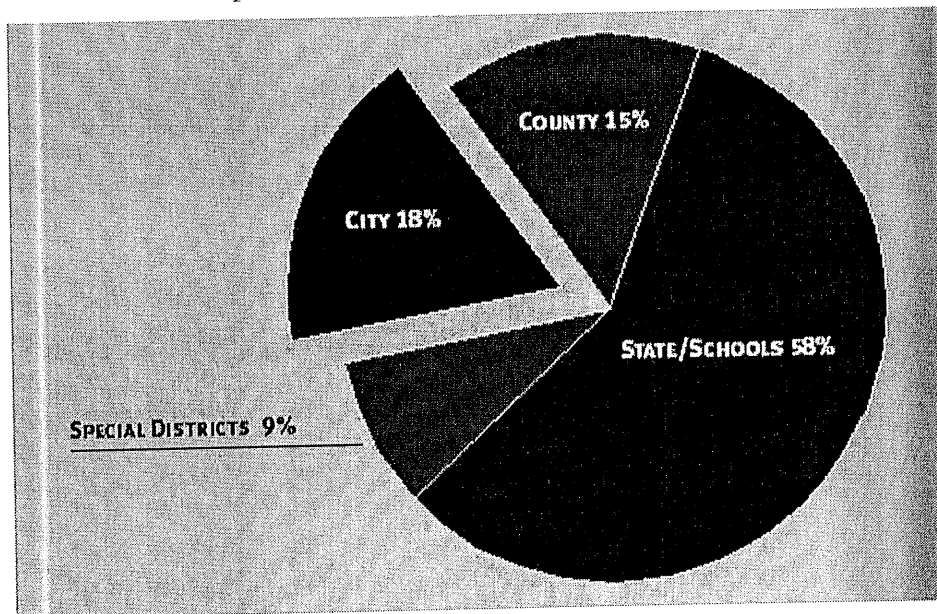
The allocation of property taxes to government agencies varies among different areas, depending on historic (pre-Prop 13) property tax levels and which services are provided by the agency:

On average, a California City resident's property tax revenues are distributed as follows:



### *Sales Tax: How Much Goes to a Typical City*

For each taxable dollar spent, sales tax is distributed as follows:



## Summary of Santa Cruz Revenues

The following tables provide a summary of the City's expenditures and the associated revenue sources currently used to support various improvements, services and activities in the City. The summary focuses on general fund expenditures that could be supported in whole or in part by special taxes, assessments or fees ("Special Revenues"). The tables are intended as an overview of general fund expenditures and do not identify all City services, activities and expenditures. Therefore the amounts shown, likely will not tie directly to the current City budget, but does provide a sufficient overview of the City's expenses to formulate improvements, services and activities that may be funded by "Special Revenues". Obviously, expenditures for City Administrative Departments (although shown in the tables), are almost exclusively fund by the general fund resources and charges to other funds, and are shown primarily for reference purposes to demonstrate the overall allocation of general fund revenues. It is not likely that existing expenses for administrative functions would be supported by the implementation of "Special Revenues" sources, but the implementation of one or more of these revenue sources will require additional City administration services and those increases and additional costs can generally be recovered through the funding mechanism. Similarly, Enterprise Funds are shown for reference purposes and are not contemplated for revenue alternatives. Existing fees and miscellaneous revenues usually fund these activities and services and although some of the activities and services could be partially funded by "Special Revenues", they would typically be utilized in connection with a related service or improvement that is not funded by the Enterprise Funds. For example, the City may pursue a comprehensive approach to NPDES requirements that may include street sweeping and storm drain maintenance, which could also incorporate wastewater activities that are currently funded by wastewater enterprise funds.

While, most services and activities can be financed by a special tax, this financing tool is typically used only to finance service related expenditures such as police, fire, recreation and libraries, generally due to the 2/3 voting requirement and the fact that the service cannot be financed by an assessment or fee (i.e. police), or developing the special benefit nexus required for an assessment would be problematic. However, various benefit assessment districts or fees could be implemented to finance many of the public works related expenditures associated with construction, maintenance and rehabilitation activities, including landscaping, parks, open space, lighting, streets, storm drain and flood control related activities.

The following tables provide an estimate of the total expenditures for various departments and services; a breakdown of those expenditures; current revenue sources; and net expenditure for the General Fund (including restricted funds such as gas tax funds). Specific financing options that may be utilized for many of these services and activities are outline later in this report.

The current revenue sources applied to the estimated expenses in the following tables are footnoted. Those footnotes are identified as:

- |   |  |    |                               |
|---|--|----|-------------------------------|
| 0 | Miscellaneous other sources less than \$10,000   | 9  | Fire department fees          |
| 1 | Charges to other Funds                           | 10 | Personnel Services Charges    |
| 2 | State Mandated Reimbursements                    | 11 | Special Assesments / Rents    |
| 3 | Fines and forfeits                               | 12 | User fees                     |
| 4 | Various State and Federal Grants                 | 13 | Charges to County             |
| 5 | Alcohol sale permit fees                         | 14 | Donations                     |
| 6 | Santa Cruz Metro Transit District / City Schools | 15 | Permits and fees              |
| 7 | Traffic tickets & Parking fines                  | 16 | Transfers In From Other Funds |
| 8 | Emergency comm. System response fees             |    |                               |

| General Fund Expenditures                   | Estimated<br>2004 Budget | Expenditures        |                       |                     |                    |             | Offsetting Revenues    |                        |
|---|--------------------------|---------------------|-----------------------|---------------------|--------------------|-------------|------------------------|------------------------|
|   |                          | Personnel           | Services/<br>Supplies | Capital<br>Outlays  | Debt<br>Service    |             | Amount                 | Type<br>(Footnotes)    |
| <b>City Administrative Departments</b>      |                          |                     |                       |                     |                    |             |                        |                        |
| City Council                                | \$ 306,409               | \$ 157,470          | \$ 148,939            | \$ -                | \$ -               | \$ -        | \$ (84,343)            | 1                      |
| City Clerk's Office                         | \$ 550,043               | \$ 435,759          | \$ 89,175             | \$ -                | \$ 25,109          | \$ -        | \$ (209,975)           | 0, 1, 2                |
| City Manager's Office                       | \$ 682,398               | \$ 538,992          | \$ 143,406            | \$ -                | \$ -               | \$ -        | \$ (192,713)           | 1                      |
| City Attorney's Office                      | \$ 546,027               | \$ 11,025           | \$ 535,002            | \$ -                | \$ -               | \$ -        | \$ (189,275)           | 1                      |
| Human Resources Department                  | \$ 6,156,115             | \$ 966,305          | \$ 5,189,810          | \$ -                | \$ -               | \$ -        | \$ (5,518,030)         | 1                      |
| Finance Department                          | \$ 3,373,428             | \$ 2,421,876        | \$ 844,219            | \$ 82,819           | \$ 24,514          | \$ -        | \$ (1,240,342)         | 0, 1, 3                |
| RDA   | \$ 735,939               | \$ 735,939          | \$ -                  | \$ -                | \$ -               | \$ -        | \$ (735,939)           | 10                     |
| <b>Total Admin Dept</b>                     | <b>\$12,350,359</b>      | <b>\$ 5,267,366</b> | <b>\$ 6,950,551</b>   | <b>\$ 82,819</b>    | <b>\$ 49,623</b>   | <b>\$ -</b> | <b>\$ (8,170,617)</b>  |                        |
| <b>City Service/Special Departments</b>     |                          |                     |                       |                     |                    |             |                        |                        |
| Police                                      | \$ 17,038,669            | \$ 13,395,233       | \$ 3,571,736          | \$ 71,700           | \$ -               | \$ -        | \$ (1,977,747)         | 0, 1, 3, 4, 5, 6, 7, 8 |
| Fire  | \$ 8,015,745             | \$ 7,082,901        | \$ 740,641            | \$ 114,458          | \$ 77,745          | \$ -        | \$ (351,000)           | 0, 4, 8, 9             |
| Library                                     | \$ 8,963,744             | \$ 7,568,993        | \$ 1,394,751          | \$ -                | \$ -               | \$ -        | \$ (7,568,993)         | 10                     |
| Non-Departmental / Social Services          | \$ 5,272,423             | \$ -                | \$ 3,006,286          | \$ 801,320          | \$ 1,464,817       | \$ -        | \$ (2,266,137)         | 0, 3, 11, 16           |
| Water                                       | \$ 12,705,074            | \$ 5,836,555        | \$ 6,368,782          | \$ 297,000          | \$ 202,737         | \$ -        | \$ (12,705,074)        | 12                     |
| <b>Total Service/Special Departments</b>    | <b>\$51,995,655</b>      | <b>\$33,883,682</b> | <b>\$15,082,196</b>   | <b>\$ 1,284,478</b> | <b>\$1,745,299</b> | <b>\$ -</b> | <b>\$ (24,868,951)</b> |                        |
| <b>Planning &amp; Community Development</b> |                          |                     |                       |                     |                    |             |                        |                        |
| Planning Administration                     | \$ 531,362               | \$ 423,018          | \$ 108,344            | \$ -                | \$ -               | \$ -        | \$ -                   |                        |
| Current Planning                            | \$ 910,183               | \$ 805,147          | \$ 105,036            | \$ -                | \$ -               | \$ -        | \$ (593,350)           | 15                     |
| Future Planning                             | \$ 385,137               | \$ 299,137          | \$ 86,000             | \$ -                | \$ -               | \$ -        | \$ -                   |                        |
| Inspection Services                         | \$ 682,253               | \$ 589,727          | \$ 92,526             | \$ -                | \$ -               | \$ -        | \$ (803,500)           | 15                     |
| Code Enforcement                            | \$ 25,000                | \$ -                | \$ 25,000             | \$ -                | \$ -               | \$ -        | \$ -                   |                        |
| Housing & Community Development             | \$ 21,115                | \$ 16,304           | \$ 4,811              | \$ -                | \$ -               | \$ -        | \$ -                   |                        |
| <b>Total Planning &amp; Comm. Dev.</b>      | <b>\$ 2,555,050</b>      | <b>\$ 2,133,333</b> | <b>\$ 421,717</b>     | <b>\$ -</b>         | <b>\$ -</b>        | <b>\$ -</b> | <b>\$ (1,396,850)</b>  |                        |



| General Fund Expenditures                          | Estimated<br>2004 Budget | Expenditures        |                       |                     |                   | Debt<br>Service | Offsetting Revenues   |                     |
|--|--------------------------|---------------------|-----------------------|---------------------|-------------------|-----------------|-----------------------|---------------------|
|  |                          | Personnel           | Services/<br>Supplies | Capital<br>Outlays  |                   |                 | Amount                | Type<br>(Footnotes) |
| <b><u>Parks &amp; Recreation</u></b>               |                          |                     |                       |                     |                   |                 |                       |                     |
| Recreation Classes                                 | \$ 268,337               | \$ 67,043           | \$ 201,294            | \$ -                | \$ -              | \$ -            | \$ (196,000)          | 0, 12               |
| Special Events/Brochure                            | \$ 263,029               | \$ 89,924           | \$ 173,105            | \$ -                | \$ -              | \$ -            | \$ (88,000)           | 12                  |
| Marine Safety Programs                             | \$ 457,190               | \$ 363,073          | \$ 87,617             | \$ 6,500            | \$ -              | \$ -            | \$ (190,200)          | 12                  |
| Sports   | \$ 321,389               | \$ 130,073          | \$ 191,316            | \$ -                | \$ -              | \$ -            | \$ (265,000)          | 12                  |
| Youth Programs                                     | \$ 418,247               | \$ 317,680          | \$ 100,567            | \$ -                | \$ -              | \$ -            | \$ (240,000)          | 12                  |
| Teen Services                                      | \$ 331,042               | \$ 174,079          | \$ 156,963            | \$ -                | \$ -              | \$ -            | \$ (2,000)            | 12                  |
| Aquatics Programs                                  | \$ 555,778               | \$ 419,677          | \$ 136,101            | \$ -                | \$ -              | \$ -            | \$ (290,000)          | 12                  |
| School Radiness Program                            | \$ -                     | \$ -                | \$ -                  | \$ -                | \$ -              | \$ -            | \$ -                  |                     |
| <b>Sub-total Recreation</b>                        | <b>\$ 2,615,012</b>      | <b>\$ 1,561,549</b> | <b>\$ 1,046,963</b>   | <b>\$ 6,500</b>     | <b>\$ -</b>       | <b>\$ -</b>     | <b>\$ (1,271,200)</b> |                     |
| Facilities Services                                | \$ 264,092               | \$ 29,873           | \$ 234,219            | \$ -                | \$ -              | \$ -            | \$ (124,368)          | 1                   |
| Civic Ctr Custodial Services                       | \$ 255,513               | \$ 228,370          | \$ 27,143             | \$ -                | \$ -              | \$ -            | \$ -                  |                     |
| Beach Flats Community Ctr                          | \$ 96,374                | \$ 84,134           | \$ 12,240             | \$ -                | \$ -              | \$ -            | \$ (5,228)            | 1                   |
| Museum   | \$ 295,439               | \$ 238,437          | \$ 57,002             | \$ -                | \$ -              | \$ -            | \$ (42,000)           | 12                  |
| Municipal Wharf                                    | \$ 1,169,579             | \$ 895,298          | \$ 274,281            | \$ -                | \$ -              | \$ -            | \$ (1,899,000)        | 11, 12              |
| Louden Nelson Comm. Ctr.                           | \$ 631,950               | \$ 474,114          | \$ 157,836            | \$ -                | \$ -              | \$ -            | \$ (167,000)          | 11, 12              |
| Civic Auditorium                                   | \$ 539,765               | \$ 363,645          | \$ 176,120            | \$ -                | \$ -              | \$ -            | \$ (279,000)          | 11, 12              |
| Golf Course  | \$ 1,819,068             | \$ 811,142          | \$ 794,737            | \$ 25,000           | \$ 188,189        | \$ -            | \$ (1,819,068)        |                     |
| Street Trees                                       | \$ 10,000                | \$ -                | \$ 10,000             | \$ -                | \$ -              | \$ -            | \$ (10,200)           | 0, 14               |
| Lighthouse Field Maintenance                       | \$ 245,142               | \$ 184,794          | \$ 57,348             | \$ 3,000            | \$ -              | \$ -            | \$ (38,800)           | 1, 13               |
| Urban Forest Maintenance                           | \$ 819,306               | \$ 612,985          | \$ 206,321            | \$ -                | \$ -              | \$ -            | \$ (6,100)            | 0, 1                |
| Park Maintenance West                              | \$ 746,353               | \$ 563,216          | \$ 183,137            | \$ -                | \$ -              | \$ -            | \$ -                  |                     |
| Park Maintenance Central                           | \$ 1,336,091             | \$ 862,214          | \$ 473,877            | \$ -                | \$ -              | \$ -            | \$ (63,750)           | 12                  |
| Park Maintenance East                              | \$ 1,147,534             | \$ 852,664          | \$ 294,870            | \$ -                | \$ -              | \$ -            | \$ (21,250)           | 12                  |
| <b>Sub-total Park &amp; Facilities Maintenance</b> | <b>\$ 9,376,206</b>      | <b>\$ 6,200,886</b> | <b>\$ 2,959,131</b>   | <b>\$ 28,000</b>    | <b>\$ 188,189</b> | <b>\$ -</b>     | <b>\$ (4,475,764)</b> |                     |
| Park & Rec Projects                                | \$ 1,975,077             |                     |                       | \$ 1,975,077        |                   |                 |                       |                     |
| P&R Admin  | \$ 921,641               | \$ 815,744          | \$ 105,897            | \$ -                | \$ -              | \$ -            | \$ (89,855)           | 1                   |
| <b>Sub-total P&amp;R Admin &amp; Projects</b>      | <b>\$ 2,896,718</b>      | <b>\$ 815,744</b>   | <b>\$ 105,897</b>     | <b>\$ 1,975,077</b> | <b>\$ -</b>       | <b>\$ -</b>     | <b>\$ (89,855)</b>    |                     |
| <b>Total Park &amp; Rec.</b>                       | <b>\$14,887,936</b>      | <b>\$ 8,578,179</b> | <b>\$ 4,111,991</b>   | <b>\$ 2,009,577</b> | <b>\$ 188,189</b> | <b>\$ -</b>     | <b>\$ (5,836,819)</b> |                     |



| General Fund Expenditures                  | Estimated<br>2004 Budget | Expenditures        |                       |                    |                  | Debt<br>Service | Offsetting Revenues   |                     |
|--|--------------------------|---------------------|-----------------------|--------------------|------------------|-----------------|-----------------------|---------------------|
|  |                          | Personnel           | Services/<br>Supplies | Capital<br>Outlays |                  |                 | Amount                | Type<br>(Footnotes) |
| <b>Public Works</b>                        |                          |                     |                       |                    |                  |                 |                       |                     |
| <b>Public Works — General Fund</b>         |                          |                     |                       |                    |                  |                 |                       |                     |
| PW Administration                          | \$ 105,789               | \$ 74,394           | \$ 30,895             | \$ 500             | \$ -             | \$ -            | \$ -                  | 1, 15               |
| Engineering                                | \$ 604,902               | \$ 515,281          | \$ 87,121             | \$ 2,500           | \$ -             | \$ -            | \$ (275,900)          |                     |
| PW Operations                              | \$ 48,578                | \$ 38,820           | \$ 9,758              | \$ -               | \$ -             | \$ -            | \$ -                  |                     |
| <b>Sub-total PW Admin &amp; Operations</b> | <b>\$ 759,269</b>        | <b>\$ 628,495</b>   | <b>\$ 127,774</b>     | <b>\$ 3,000</b>    | <b>\$ -</b>      | <b>\$ -</b>     | <b>\$ (275,900)</b>   |                     |
| Brookside Glen Creek Bank Rest.            | \$ 219,649               | \$ -                | \$ 219,649            | \$ -               | \$ -             | \$ -            | \$ (219,649)          | 4                   |
| Street Maintenance                         | \$ 967,266               | \$ 525,564          | \$ 379,888            | \$ 18,000          | \$ 43,814        | \$ -            | \$ (42,000)           | 1                   |
| Sidewalk Repair                            | \$ 191,790               | \$ 130,883          | \$ 59,107             | \$ 1,800           | \$ -             | \$ -            | \$ -                  |                     |
| Street Cleaning                            | \$ -                     | \$ -                | \$ -                  | \$ -               | \$ -             | \$ -            | \$ -                  |                     |
| Flood Control                              | \$ -                     | \$ -                | \$ -                  | \$ -               | \$ -             | \$ -            | \$ -                  |                     |
| Traffic Engineering                        | \$ 457,142               | \$ 415,177          | \$ 40,465             | \$ 1,500           | \$ -             | \$ -            | \$ (80,000)           | 1                   |
| Parking Control                            | \$ 1,215,115             | \$ 978,989          | \$ 175,626            | \$ 60,500          | \$ -             | \$ -            | \$ (1,423,000)        | 0, 7, 11            |
| Parking Maintenance                        | \$ 218,404               | \$ 191,825          | \$ 26,579             | \$ -               | \$ -             | \$ -            | \$ (851,660)          | 1, 12               |
| Traffic Maintenance                        | \$ 549,514               | \$ 440,147          | \$ 106,817            | \$ 2,550           | \$ -             | \$ -            | \$ (12,500)           | 1                   |
| <b>Sub-total PW Maintenance</b>            | <b>\$ 3,818,880</b>      | <b>\$ 2,682,585</b> | <b>\$ 1,008,131</b>   | <b>\$ 84,350</b>   | <b>\$ 43,814</b> | <b>\$ -</b>     | <b>\$ (2,628,809)</b> |                     |
| <b>Total Public Works-General Fund</b>     | <b>\$ 4,578,149</b>      | <b>\$ 3,311,080</b> | <b>\$ 1,135,905</b>   | <b>\$ 87,350</b>   | <b>\$ 43,814</b> | <b>\$ -</b>     | <b>\$ (2,904,709)</b> |                     |
| <b>Public Works — Gasoline Tax Fund</b>    |                          |                     |                       |                    |                  |                 |                       |                     |
| Traffic Signal Maintenance                 | \$ 298,641               | \$ 164,737          | \$ 106,906            | \$ 8,800           | \$ 18,198        | \$ -            | \$ -                  |                     |
| Street Lighting                            | \$ 345,900               | \$ -                | \$ 337,900            | \$ 8,000           | \$ -             | \$ -            | \$ -                  |                     |
| <b>Total PW — Gas Tax Fund</b>             | <b>\$ 644,541</b>        | <b>\$ 164,737</b>   | <b>\$ 444,806</b>     | <b>\$ 16,800</b>   | <b>\$ 18,198</b> | <b>\$ -</b>     | <b>\$ -</b>           |                     |

| General Fund Expenditures                           | Estimated<br>2004 Budget | Expenditures |                       |                     |             | Debt<br>Service | Offsetting Revenues |                     |
|---|--------------------------|--------------|-----------------------|---------------------|-------------|-----------------|---------------------|---------------------|
|   |                          | Personnel    | Services/<br>Supplies | Capital<br>Outlays  |             |                 | Amount              | Type<br>(Footnotes) |
| <b>Public Works — Capital Projects</b>              |                          |              |                       |                     |             |                 |                     |                     |
| <b><u>Gasoline Tax Fund</u></b>                     |                          |              |                       |                     |             |                 |                     |                     |
| Bicycle Parking                                     | \$ 1,000                 |              |                       | \$ 1,000            |             |                 | \$ -                |                     |
| Bikeway Striping                                    | \$ 12,000                |              |                       | \$ 12,000           |             |                 | \$ -                |                     |
| Bike/Ped Connection                                 | \$ 100,000               |              |                       | \$ 100,000          |             |                 | \$ -                |                     |
| Street Reconstruction/Overlay                       | \$ 200,000               |              |                       | \$ 200,000          |             |                 | \$ -                |                     |
| Road Intersection Revisions                         | \$ 440,000               |              |                       | \$ 440,000          |             |                 | \$ -                |                     |
| Signals   | \$ 156,000               |              |                       | \$ 156,000          |             |                 | \$ -                |                     |
| <b>Sub-total (Gas Tax Fund)</b>                     | <b>\$ 909,000</b>        | <b>\$ -</b>  | <b>\$ -</b>           | <b>\$ 909,000</b>   | <b>\$ -</b> |                 | <b>\$ -</b>         |                     |
| <b><u>Traffic Congestion Fund</u></b>               |                          |              |                       |                     |             |                 |                     |                     |
| Street Reconstruction/Overlay                       | \$ -                     |              |                       | \$ -                |             |                 | \$ -                |                     |
| <b>Sub-total (Traffic Fund)</b>                     | <b>\$ -</b>              | <b>\$ -</b>  | <b>\$ -</b>           | <b>\$ -</b>         | <b>\$ -</b> |                 | <b>\$ -</b>         |                     |
| <b><u>General Capital Improvements Fund</u></b>     |                          |              |                       |                     |             |                 |                     |                     |
| Center St. Storm Drain                              | \$ 100,000               |              |                       | \$ 100,000          |             |                 | \$ -                |                     |
| Street Reconstruction/Overlay                       | \$ 220,000               |              |                       | \$ 220,000          |             |                 | \$ -                |                     |
| Street Restriping                                   | \$ 30,000                |              |                       | \$ 30,000           |             |                 | \$ -                |                     |
| Cliff St. Storm Drain                               | \$ 250,000               |              |                       | \$ 250,000          |             |                 | \$ -                |                     |
| Minor Storm Drain Improvements                      | \$ 30,000                |              |                       | \$ 30,000           |             |                 | \$ -                |                     |
| Minor Street Improvements                           | \$ 30,000                |              |                       | \$ 30,000           |             |                 | \$ -                |                     |
| Minor Traffic Signal Maintenance                    | \$ 30,000                |              |                       | \$ 30,000           |             |                 | \$ -                |                     |
| Santa Cruz Multimodal Station                       | \$ 1,547,225             |              |                       | \$ 1,547,225        |             |                 | \$ -                |                     |
| <b>Sub-total (General Capital Improvement Fund)</b> | <b>\$ 2,237,225</b>      | <b>\$ -</b>  | <b>\$ -</b>           | <b>\$ 2,237,225</b> | <b>\$ -</b> |                 | <b>\$ -</b>         |                     |
| <b>Total PW — Capital Projects</b>                  | <b>\$ 3,146,225</b>      | <b>\$ -</b>  | <b>\$ -</b>           | <b>\$ 3,146,225</b> | <b>\$ -</b> |                 | <b>\$ -</b>         |                     |

| General Fund Expenditures                      | Estimated<br>2004 Budget | Expenditures |                       |                     |                 | Offsetting Revenues   |                     |
|--|--------------------------|--------------|-----------------------|---------------------|-----------------|-----------------------|---------------------|
|  |                          | Personnel    | Services/<br>Supplies | Capital<br>Outlays  | Debt<br>Service | Amount                | Type<br>(Footnotes) |
| <b>Public Works — Enterprise Funds</b>         |                          |              |                       |                     |                 |                       |                     |
| <b><u>Wastewater/Wastewater Public Art</u></b> |                          |              |                       |                     |                 |                       |                     |
| Citywide Infiltration/Inflow Elimination       | \$ 100,000               |              |                       | \$ 100,000          |                 | \$ (100,000)          | 0,12                |
| Televised Sewer Inspection                     | \$ 25,000                |              |                       | \$ 25,000           |                 | \$ (25,000)           | 0,12                |
| Park Sewers                                    | \$ 200,000               |              |                       | \$ 200,000          |                 | \$ (200,000)          | 0,12                |
| Franklin/Hunolt Streets Sewer                  | \$ 180,000               |              |                       | \$ 180,000          |                 | \$ (180,000)          | 0,12                |
| Leased Financed Systems                        | \$ 1,500                 |              |                       | \$ 1,500            |                 | \$ (1,500)            | 0,12                |
| Sewer Access Road                              | \$ 5,000                 |              |                       | \$ 5,000            |                 | \$ (5,000)            | 0,12                |
| Park Rehab                                     | \$ 24,900                |              |                       | \$ 24,900           |                 | \$ (24,900)           | 0,12                |
| Sewer System Improvements                      | \$ 85,000                |              |                       | \$ 85,000           |                 | \$ (85,000)           | 0,12                |
| Street Reconcruction                           | \$ 50,000                |              |                       | \$ 50,000           |                 | \$ (50,000)           | 0,12                |
| Wharf Sewer Maintenance                        | \$ 140,000               |              |                       | \$ 140,000          |                 | \$ (140,000)          | 0,12                |
| Treatment Plant Equipment Replace              | \$ 370,000               |              |                       | \$ 370,000          |                 | \$ (370,000)          | 0,12                |
| Treatment Plant Remote Fire Alarm              | \$ 49,000                |              |                       | \$ 49,000           |                 | \$ (49,000)           | 0,12                |
| <b>Sub-total (Waste Water Funds)</b>           | <b>\$ 1,230,400</b>      | <b>\$ -</b>  | <b>\$ -</b>           | <b>\$ 1,230,400</b> | <b>\$ -</b>     | <b>\$ (1,230,400)</b> |                     |
| <b><u>Refuse Fund</u></b>                      |                          |              |                       |                     |                 |                       |                     |
| Daily Cover Pilot Project                      | \$ 40,000                |              |                       | \$ 40,000           |                 | \$ (40,000)           | 0,12                |
| Equipment Wash Rack                            | \$ 196,000               |              |                       | \$ 196,000          |                 | \$ (196,000)          | 0,12                |
| Highway 1/Dimeo Land Restriping                | \$ 40,000                |              |                       | \$ 40,000           |                 | \$ (40,000)           | 0,12                |
| Landfill Gas Collect System Maint.             | \$ 210,000               |              |                       | \$ 210,000          |                 | \$ (210,000)          | 0,12                |
| Laechate Line Maintenance                      | \$ 35,000                |              |                       | \$ 35,000           |                 | \$ (35,000)           | 0,12                |
| Leased Financed Systems                        | \$ 1,500                 |              |                       | \$ 1,500            |                 | \$ (1,500)            | 0,12                |
| Line Cover Project                             | \$ 100,000               |              |                       | \$ 100,000          |                 | \$ (100,000)          | 0,12                |
| Resource Recovery Facility Maint.              | \$ 125,000               |              |                       | \$ 125,000          |                 | \$ (125,000)          | 0,12                |
| Water/Gas Monitoring System Maint.             | \$ 12,000                |              |                       | \$ 12,000           |                 | \$ (12,000)           | 0,12                |
| Public Art Projects-Refuse                     | \$ 5,600                 |              |                       | \$ 5,600            |                 | \$ (5,600)            | 0,12                |
| <b>Sub-total (Refuse Funds)</b>                | <b>\$ 765,100</b>        | <b>\$ -</b>  | <b>\$ -</b>           | <b>\$ 765,100</b>   | <b>\$ -</b>     | <b>\$ (765,100)</b>   |                     |

| General Fund Expenditures                   | Estimated<br>2004 Budget | Expenditures        |                       |                     |                    | Offsetting Revenues    |                     |
|---|--------------------------|---------------------|-----------------------|---------------------|--------------------|------------------------|---------------------|
|   |                          | Personnel           | Services/<br>Supplies | Capital<br>Outlays  | Debt<br>Service    | Amount                 | Type<br>(Footnotes) |
| <b>Public Works — Enterprise Funds</b>      |                          |                     |                       |                     |                    |                        |                     |
| <u>Parking, Public Art, COP 8</u>           |                          |                     |                       |                     |                    |                        |                     |
| Leased Financed Systems                     | \$ 150                   |                     |                       | \$ 150              |                    | \$ (150)               | 0,12                |
| Lots 3/10 Parking Structure Repair          | \$ 200,000               |                     |                       | \$ 200,000          |                    | \$ (200,000)           | 0,12                |
| <u>Sub-total (Parking Funds)</u>            | \$ 200,150               | \$ -                | \$ -                  | \$ 200,150          | \$ -               | \$ (200,150)           |                     |
| <u>Storm Water/Storm Overlay/Public Art</u> |                          |                     |                       |                     |                    |                        |                     |
| River Vegetation Management                 | \$ 45,000                |                     |                       | \$ 45,000           |                    | \$ (45,000)            | 0,12                |
| Flood Control Pump Station Repair           | \$ 10,000                |                     |                       | \$ 10,000           |                    | \$ (10,000)            | 0,12                |
| Storm Drain Stenciling Program              | \$ 1,000                 |                     |                       | \$ 1,000            |                    | \$ (1,000)             | 0,12                |
| SLR Flood Control /Beautification           | \$ 40,000                |                     |                       | \$ 40,000           |                    | \$ (40,000)            | 0,12                |
| SLR Flood Control-Laurel Phase              | \$ 1,900,000             |                     |                       | \$ 1,900,000        |                    | \$ (1,900,000)         | 0,12                |
| SLR Pathway/Pedestrian Bridge               | \$ 950                   |                     |                       | \$ 950              |                    | \$ (950)               | 0,12                |
| <u>Sub-total (Storm Water Funds)</u>        | \$ 1,996,950             | \$ -                | \$ -                  | \$ 1,996,950        | \$ -               | \$ (1,996,950)         |                     |
| <u>Equipment Operations Fund</u>            |                          |                     |                       |                     |                    |                        |                     |
| Mechanical Maintenance                      | \$ 2,164,404             | \$ 966,700          | \$ 1,194,968          | \$ -                | \$ 2,736           | \$ (2,164,404)         | 1                   |
| Communications                              | \$ 24,610                | \$ -                | \$ 24,610             | \$ -                | \$ -               | \$ (24,610)            | 1                   |
| <u>Sub-total (Equipment Fund)</u>           | \$ 2,189,014             | \$ 966,700          | \$ 1,219,578          | \$ -                | \$ 2,736           | \$ (2,189,014)         |                     |
| <u>Total PW — Enterprise Funds</u>          | \$ 6,381,614             | \$ 966,700          | \$ 1,219,578          | \$ 4,192,600        | \$ 2,736           | \$ (6,381,614)         |                     |
| <b>Total Public Works</b>                   | <b>\$14,750,529</b>      | <b>\$13,162,814</b> | <b>\$ 7,956,061</b>   | <b>\$22,312,125</b> | <b>\$ 176,046</b>  | <b>\$ (27,858,969)</b> |                     |
| <b>Grand Total-General Fund</b>             | <b>\$96,539,529</b>      | <b>\$63,025,374</b> | <b>\$34,522,516</b>   | <b>\$25,688,999</b> | <b>\$2,159,157</b> | <b>\$ (68,132,206)</b> |                     |

## REVENUE OPTIONS FOR SANTA CRUZ

Not unlike many cities in California, the City of Santa Cruz is experiencing severe budget constraints resulting from a changing economic environment as well as the States' budget crises. These factors have been acutely obvious in the City of Santa Cruz, where almost all local public improvements, services and facilities are fund by typical General fund revenues (Ad Valorem taxes, Vehicle License Fees, Sales tax, Transient Occupancy Tax etc.). These limited and mostly declining revenue streams have impacted the City's ability to provide the services and quality of life that its residents and property owners have come accustomed to and often take for granted. While new assessments, special taxes or fees can improve the City's financial stability, the long-term results of any particular financing plan must begin with an understanding that there are several underlying factors and issues that must be considered in the financing plan:

- The population and demand for new housing is increasing
- State and Federal mandate requirements are rising
- The demands on City services continues to rise particularly police and fire service, but the employees available per call ratio is decreasing
- City staffing levels are key to providing enhanced service and salaries must be at or above average to attract qualified staff
- City is short of facilities and services such as parks, recreation programs and road maintenance
- The requirements for implementing the financing plan (Proposition 218)

Before discussing the various revenue options available to the City, a clear understanding of the provisions of the Constitution established by Proposition 218 will be useful.

### Proposition 218

Proposition 218 has had a significant impact on the process by which Cities impose local revenues, however it had little effect on the types of revenue sources available to the City. The following is a summary of the key points of the proposition:

- A. It required that the agency demonstrate that both new and existing taxes and assessments as well as fees and charges (revenue sources) comply with the provisions of the Articles.
  1. For taxes, these provisions include:
    - (a) All taxes shall be deemed to be either general taxes or special taxes;
    - (b) General taxes may not be imposed, extended or increased until such tax is submitted to the electorate and approved by majority vote and shall be consolidated with a regularly scheduled general election;
    - (c) Special taxes may not be imposed, extended or increased until such tax is submitted to the electorate and approved by two-thirds vote;

- (d) Taxes, both general and special, shall not be deemed to have been increased if the tax is imposed at a rate not higher than the maximum rate so approved.
2. For assessments, these provisions include:
- (a) A clear special benefit nexus between the improvements/services and the amount to be assessed is demonstrated (Burden of proof is on the agency);
  - (b) Identification of any general benefit and the exclusion of the general benefit from the assessments (only special benefits may be assessed);
  - (c) The assessments must be supported by a detailed Engineer's Report;
  - (d) No assessment shall be imposed that exceeds the reasonable cost of the proportional special benefit conferred;
  - (e) Parcels that are owned or used by any agency, the State or the United States are not exempt from assessment unless clear and convincing evidence is shown that such parcels receive no special benefit;
  - (f) Property owners must approve any new or increased assessments through a property owner protest ballot proceeding. The agency shall conduct a public hearing upon the proposed assessment not less than 45 days after mailing the notice and ballot to the record owners. These instruments must identify the proposed assessment including the total amount chargeable to the entire district, the amount chargeable to the owner's particular parcel, the duration of such payments, the reason for such assessment and the basis upon which the amount of the proposed assessment was calculated, together with the date, time, and location of a public hearing. Each notice shall also include, in a conspicuous place a summary of the procedures applicable to the completion, return and tabulation of the ballots, including a disclosure statement that the existence of a majority protest will result in the assessment not being imposed;
  - (g) Ballots shall be weighted according to the proportional financial obligation of the affected property and only those ballots returned are tabulated.
3. For property related fees and charges, these provisions include:
- (a) General Information
    - (i) The definition of a Fee or Charge means any levy other than an ad Valorem tax, special tax or assessment, imposed upon a parcel or upon a person as an incident of property ownership, including user fees or charges for a property related service;
    - (ii) Voter approval for fees and charges — Except for sewer, water and refuse; no property related fee or charge shall be imposed or increased until it is submitted and approved by a majority vote of property owners or at the option of the agency, by a two-thirds vote of the electorate residing in the affected area. (Elections must be conducted not less than forty-five days after the public hearing).
  - (b) For new or increased fees and charges;
    - (i) The amount of the fee or charge shall be calculated.



- (ii) The agency must provide mailed written notice to the record owner at least forty-five days prior to the public hearing.
- (iii) The amount, method of calculation, reason for the fee or charge together with the date, time, and location of a public hearing must be included in the notice.
- (iv) The agency shall not impose the fee or charge if written protests are presented by a majority of the property owners.
- (c) For existing new or increased fees and charges;
  - (i) Revenues from the fees or charges shall not exceed the cost of service and shall be proportional
  - (ii) Revenues shall not be used for any other purpose.
  - (iii) The services must be used or immediately available to the owner (potential or future use are not permitted).
  - (iv) Standby charges are classified as assessments and shall comply with the requirements for assessments
  - (v) No Fee or Charge may be imposed for general government services (police, fire, ambulance, library services, etc) when the service is available to the public at large in the same manner as it is to property owners.
- B. Agencies must give greater consideration to the type of financing mechanisms they choose to use in facilitating the improvements and/or services desired. (Public support is essential).

## General Taxes

The voters in Santa Cruz have approved the continuation of the utility tax and recently approved an increase to the City's sales tax both of which are general fund revenues. Although this has been encouraging and has helped the City to support many key activities and functions, it is not likely that another General Tax or an increase to an existing tax would be widely supported. Property owners and voters are more likely to support of a financing plan that targets a specific issue, improvement or service utilizing either a special tax or by a benefit assessment. While this may be the case, the following are some common General Tax principles:

- Flexible structure and implementation
- Simple majority approval (50% plus 1)
- No strict benefit requirement
- No restrictions on use of funds
- Registered voters vote
- Timing: general election of City Council members

- Proceeds to general fund & public perception

## Property Tax

Description: A general, ad Valorem tax imposed on real property (land and permanently attached improvements) and tangible personal property (movable property). By definition, this ad Valorem tax is based on the property value rather than on a fixed amount or benefit. Article XIII A of the state Constitution limits the real property tax rate to 1 percent of the property's assessed value, plus rates imposed to fund indebtedness approved by the voters. This Article also prohibits the enactment of any additional ad Valorem property tax, transaction tax or sales tax on the sale of real property. The property tax is guaranteed by placing a lien on real property and for this reason properties are distinguished as secured and unsecured. Property Taxes are administered by various agencies including the County Assessor (assessment of property), County Tax Collector (collection), County Auditor (distribution) and the State Board of Equalization (procedure and assessment of the state roll). The revenues distributed to the City are unrestricted.

## Sales and Use Tax

General tax imposed on the total retail price of any tangible personal property. The sales tax is imposed on retailers for the privilege of selling tangible personal property in California. The use tax is imposed on the user of a product purchased out-of-state and delivered for use in California. Before 1955, cities and counties administered local sales tax ordinances. Today, the Board of Equalization collects sales and use taxes and distributes local sales tax revenue. City collections are settled on a quarterly basis, with monthly estimated "advance" payments and a subsequent settlement payment to cover the difference between estimated and actual collections. Because the sales tax is imposed on retail transactions, resale and wholesale sales are excluded from the tax, as are the costs of professional services and food for home consumption. Otherwise, all sales are taxable unless specifically exempted.

The basic sales tax rate is unrestricted, but must be received into the City general fund. Locally enacted add-on rates may be restricted. One-half cent is allocated to the Public Safety Augmentation Fund (proposition 172). This voter-approved amendment to the state Constitution imposed a statewide one-half cent sales tax for public safety services. Revenues received by the state are distributed to each county based on a proportionate share of statewide taxable sales. The County Auditor is required to allocate the funds to the county and cities within the county, but the funds are restricted. Eligible public safety services include, but are not limited to sheriffs, police, fire protection, county district attorneys and county corrections.

## Business License Tax

A Business License Tax is usually a general tax on businesses for the privilege of conducting business within the city. The business license tax is an excise tax imposed on businesses for the privilege of conducting business within the city. Although sometimes referred to as a

"business license fee," the business license tax is either a general tax or a special tax, depending upon whether the proceeds are earmarked for a specific purpose. The tax is most commonly based on gross receipts or levied at a flat rate, but is sometimes based on the quantity of goods produced, number of employees, number of vehicles, square footage of the business or some combination of these factors. Rates are set at the city's discretion, but may not be discriminatory. Cities may levy this tax for regulatory or revenue-raising purposes, but regulatory fees may be levied only to cover the costs of regulation. Increasing a general tax requires only a majority vote; increasing a special tax requires a two-thirds vote. The use of the revenues collected for a Business License Tax is usually unrestricted.

Pro:

- Businesses pay but don't vote (registered voters vote)

Con:

- Does not generate significant revenues
- Demand considerations

### **Utility User's Tax**

A Utility User's Tax is imposed on use of utility services and is collected by the utilities as part of its regular billing procedure, and then remitted to the City. A Utility User's Tax can be imposed on the consumer (residential and/or commercial) for any combination of electric, gas, cable television, water and telephone services including pay telephones and mobile phones for calls originating in the City. According to recent surveys, the average Utility User's Tax rate is approximately 5.31 percent, with a range of 1 to 11 percent, although recent trends would indicate somewhat higher rates. As is the case with most General Taxes, the use of Utility User's Tax revenues is unrestricted.

Pro:

- Capable of generating significant revenues
- Cash flow is regular and only depending on utility billing cycles

Con:

- Current utility environment
- Some cities facing utility tax repeals

### **Transient Occupancy Tax**

A Transient Occupancy Tax (TOT), often referred to as "Bed Tax", is a General Tax imposed on occupants for the privilege of occupying room(s) in hotels, motels, etc. The revenues are unrestricted, but many cities designate the revenues for tourism or business development. Cities may impose the transient occupancy tax (TOT) on persons staying 30 days or less in hotels, motels, inns, non-membership campground or other lodging facility. Cities may also levy a tax on the privilege of renting a mobile home located outside a mobile home park, unless such occupancy is for more than 30 days or unless the tenant is an employee of the owner. Owners of timeshare property or membership camping are exempt.

Rates are set at the City's discretion (although they must be approved by the voters) and may be a specific amount or a percentage. Surveys indicate the average TOT rate in California is approximately 9.5 percent, with a range from 4 to 15 percent.

Pro:

- Tourists pay but don't vote (registered voters)

Con:

- Does not typically generate significant revenues
- Demand considerations

## **Parking Tax**

The parking tax is imposed on the occupant of an off-street parking space for the privilege of renting the space within the City. The tax is collected by the owners or operators of paid parking facility and remitted to the City. Typically the tax is based on a percentage of the amount charged for parking. The City of Santa Cruz currently imposes a parking tax.

## **Documentary Transfer Tax**

The "Documentary Transfer Tax" or "Real Property Transfer Tax," is a General Tax (excise tax) imposed on the transfer of interests in real estate. The tax is usually in proportion to the value of the property or interest conveyed. Cities and counties are authorized to impose a tax based on the transfer of ownership in real estate with a value exceeding \$100. Counties are authorized to levy the tax at a rate of 55 cents per \$500 of the property value, exclusive of any lien or encumbrance remaining at the time of sale. A city is authorized to levy a tax at one-half the county rate and the city tax is credited against the amount of tax due to the county. Typically, the city and county each receive 27.5 cents per \$500 value. The tax does not apply to furnishings, personal effects, or business inventories that may be transferred with the property. The Tax is collected by the county and remitted to the City and the use of the revenue is unrestricted.

## **Admissions Tax**

The admissions tax is a General Tax imposed on consumers for the privilege of attending a show, performance, display or exhibition similar to a sales tax. Events for which the tax is levied vary but can include movies, sporting events, concerts, circuses, museums and any other exhibitions or performances. The tax is usually based on a flat rate per ticket or a percentage of the admission price. The tax is included in the price of each ticket and is collected by the ticket seller and remitted by the seller to the City. Often times certain persons are exempted from the tax, such as uniformed military personnel, children under 12, student organizations and senior citizens. Although generally determined to be lawful, courts have struck down admissions taxes that are solely or primarily imposed on activities protected by the First Amendment. These court cases suggest that a City must have

substantial businesses or events that do not involve First Amendment rights and these events would bear a significant portion of the tax burden.

## **Development Tax**

A development tax is a type of excise tax on the privilege or activity of development and/or the availability or use of municipal services. The tax is generally imposed only on new construction and is usually based on the number of units, bedroom count or square footage. A development tax is different from a development fee. Development fees are intended to mitigate the impacts of development, and they must not exceed the cost of providing the services or facilities necessitated by the development. In addition the proceeds from development fees must be spent on such services or facilities. Unlike a development fee, a development tax is imposed for revenue-raising purposes and need not bear any relationship to the cost of facilities, services, or other municipal purposes funded by the tax revenues. However, a development fee should not and cannot be characterized as a tax for the purpose of circumventing the limitations placed on fees.

## **Special Taxes**

While proceeds from general taxes are deposited into the general fund and are used for general governmental purposes, special taxes are earmarked for a specific purpose or governmental program. Special taxes require a two-thirds vote of the electorate voting in an election in order to be implemented. In 2000, the Legislature instituted new requirements for the use of special taxes, as well as bonds. The Local Agency Special Tax and Bond Accountability Act requires that:

- Ballot measures for special taxes must include a statement indicating the specific purposes of the tax;
- The proceeds may only be applied to the specified purposes;
- The revenues are to be deposited into a separate account; and
- The City must prepare an annual report for its governing body that includes the amount of funds collected and expended and the status of any project funded by the tax.

Special taxes can be implemented to finance a myriad of services if the City can obtain the two-thirds vote required to implement the tax. Today, the Mello-Roos Community Facilities Districts (CFDs) provides the broadest range and authority for services and improvements (generally used for new development), but many cities have successfully passed special taxes to fund parks, library services, police and fire. With some exceptions applicable to CFDs, Special Taxes share some common principles:

- Flexible structure and implementation
- Super-majority approval required (2/3 of registered voters; for CFDs the voters can be land owners under certain circumstances)

- No strict benefit nexus requirement
- Restrictions on use of funds
- Voter approval may be obtained at either a special or general election (CFDs have even more flexibility)

## **Mello-Roos Community Facilities Tax**

The Mello-Roos Community Facilities Tax is a special (non ad Valorem) tax typically imposed to finance public capital facilities and services in connection with new development although the authority is broad ranged and can also include maintenance and rehabilitation and can be applied to existing development. This tax is implemented by the formation of a Mello-Roos Community Facilities District (CFD) and the provisions and requirements are outlined in the Government Code commencing with Section 53311. Although most CFDs included bonded indebtedness, districts formed for service related issues are usually non-bonded districts.

The revenues can generally be used to finance the purchase, construction, improvement, expansion, maintenance or rehabilitation of any real or tangible property with an estimated useful life of five or more years and may also finance certain services. Authorized facilities include park, recreation and open-space facilities, school sites and buildings, libraries, childcare facilities, natural gas pipeline facilities, and telephone, electrical and cable television facilities. The services that may be include in a CFD are generally police protection services, fire protection services, ambulance and paramedic services, flood and storm protection services, clean-up of any hazardous substance released into the environment, recreation program services, library services, and operation and maintenance of parks, landscaping, open space, museums and cultural facilities. A CFD can also be used to fund work necessary to bring buildings into compliance with seismic safety standards.

The Mello-Roos Community Facilities Act of 1982 provides a method of financing public improvements and certain services and authorizes cities and certain other local agencies to form a CFD to finance specified public facilities and services through the imposition of special taxes. Although the tax must be apportioned in a fair and reasonable manner (cannot be based on property value), the tax is not required to bear any relationship to benefit received and is collected with the regular property tax bill.

The Mello-Roos district is a distinct entity of government, even though the governing body and the boundaries of the district may be coterminous with the city boundaries. The tax is levied by ordinance approved by a two-thirds vote of the registered voters living within the district. If fewer than 12 registered voters reside within the district the vote shall be by the landowners of the proposed district. In such cases, each landowner has one vote for each acre of land or portion thereof that he or she owns within the district. The tax can be adjusted annually by resolution or merely applied per the approved ordinance. The primary considerations for implementing a CFD are:

Pro:

- Flexible structure and implementation

- No timing restriction on election
- No strict benefit requirement
- Bonds can be issued for construction
- If less than 12 registered voters, property owners vote
- Most flexible of funding mechanisms because of its ability to pay for construction (quickly through bond issue) and its ability to fund public safety services, park maintenance, parkway and open space maintenance

Con:

- CFDs require 2/3 voter approval
- "Mello-Roos stigma"
- CFDs generally not formed in developed areas
- Although CFDs can provide for construction and maintenance, most improvements and services are limited to construction or maintenance rather than both. For example, streets and traffic signals can be constructed, but the maintenance or rehabilitation of these improvements is not directly authorized (Although legal interpretations may vary).

## Special Tax for Library Services

This special tax is levied and used for the purpose of providing public library facilities and services. The tax may be levied on any reasonable basis determined by the city, county or library district, including a flat per-parcel rate, a rate equivalent to the cost of making facilities or authorized services available to each parcel, or a rate equivalent to the specific benefit received by the various parcels. (A nexus to specific benefit is not a requirement, as this is a special tax and not an assessment). However, a library tax may not be an ad Valorem property tax. This special tax is authorized pursuant to the provisions and requirements outlined in the California Government Code Section 53717-53717.6. The use of the revenues is restricted to those services as defined in California Education Code, beginning in Section 18010. Services may include but are not limited to cost of developing and maintaining the library collection, lending services, information services, facility maintenance and administration.

## Parcel Taxes

A parcel tax is a type of excise tax that is based on either a flat per parcel rate or a rate that varies depending upon use, size, and/or number of units on each parcel. A parcel tax must be adopted as a special tax and application of this tax on a property-value basis (ad Valorem) is prohibited. A parcel tax is authorized pursuant to the provisions and requirements outlined in the California Government Code Section 37100.5 and 50075 for general law cities and for charter cities such as Santa Cruz the authority is pursuant to the California Constitution Article XI section 5 (general home rule powers) and the city's charter.

Revenues from a parcel tax may be used for any purpose. If the tax is levied for a specific purpose, a two-thirds vote is required, and use of revenues is restricted to those services specified on the ballot measure. Although this would suggest that a parcel tax could also be imposed as a general tax, most legal opinions would support a position that in the post-Prop 218 era, by nature a parcel tax cannot be considered a general tax. The ordinances adopting a parcel tax commonly provide that the tax is an excise tax, based on the availability or use of municipal services and/or facilities and by practice constitutes a special tax. The taxpayer need not actually use the services but can be required to pay the tax based on the mere availability of the services. However, if services are used, a parcel tax must be proportional to such use by the taxpayer. This proportionality requirement is similar to the apportionment requirement for business license taxes and generally requires a taxing methodology that differentiates between users on some rational basis. Parcel taxes are used to support various city services including public safety services, storm water, cultural centers, street maintenance, library and recreational services.

### **Special Tax for Police and Fire Services**

Special tax on parcels of property for supporting police protection and/or fire suppression services authorized pursuant to the provisions of the California Government Code Section 53978. This special tax gives cities the authority to raise revenues in support of police and/or fire protection services by placing a tax on parcels of property that receive such service. The ordinance must specify either the amount of the levy per parcel or the maximum amount that can be levied annually on each parcel. Rates may be set the same for all parcels or vary for different parcels based on the relative benefits received from the public safety services, similar to a benefit assessment district although a direct benefit nexus is not required. Application of the tax may also vary. The tax may be applied to all parcels within the City, zones may be established based on different levels of service and the tax may be limited to parcels within those zones or a single zone. In these cases the special tax must be submitted to all affected voters within the zones and can take effect only upon approval of two-thirds of the voters.

As a special tax, the state Constitution requires a two-thirds voter approval, even if the revenues will be deposited into the general fund. If the city wants to exceed the approved tax amount or annual cap, the new rate must be submitted again to the affected voters for two-thirds approval. The tax may not be calculated based on property-value (ad Valorem), and the tax must be included in a City's Proposition 4 limit. The revenues collected are restricted to those services for which charges were imposed by the ballot measure and may include the costs of stations, personnel salaries and benefits, and cost of purchasing, operating and maintaining equipment. The only major restriction is that the funds cannot typically be used for ambulance services (Except in San Bernardino County).



## Benefit Assessments

Special benefit assessments are charges to fund public improvements that are imposed upon land or business within a predetermined district, according to the benefit received from the improvement, those improvements being the construction, reconstruction, acquisition or maintenance of a public improvement, or to fund services. The authority for a City to impose an assessment is included in various provisions of the Government Code, Streets and Highways Code, Health and Safety Code, and Public Utilities Code. Some of these laws allow bond financing in connection with procedures that authorize the establishment of the district and some have limit durations, although they typically include a renewal process unless the district assessments were for the repayment of bonds. Benefit assessments are neither taxes nor fees and pursuant to Article XIID of the California Constitution both substantive and procedural requirements apply to benefit assessments imposed upon real property. An assessment district is not a separate governmental entity, but rather a defined area that will benefit by the improvements. The following table provides a summary of several commonly utilized benefit assessment districts and the improvements they can fund.

[illegible]

## **Common California Assessment Acts**

The most commonly used benefit assessment laws utilized by public agencies in recent years are the Improvement Act of 1911, the Municipal Improvement Act of 1913, the Improvement Bond Act of 1915, the Landscaping and Lighting Act of 1972, the Benefit Assessment Act of 1982 and the Parking and Business Improvement Area Laws of 1989 and 1994. The following describes these assessment laws as well as others that could be considered by the City.

### **The Park and Playground Act of 1909**

Authorized pursuant to (Government Code, 3800 et seq.): let's cities pay for public park, urban open-space land, playground, and library facilities. Cities that use the 1909 Act can condemn land for improvements.

### **The Improvement Act of 1911**

Authorized pursuant to (Streets & Highways. Code, 5000 et seq.): permits cities and counties to fund construction of transportation systems, street paving, parks, sewers, drainage systems, fire protection, flood control, water systems,

### **1913/1915 Act Assessment Districts**

Authorized pursuant to (Streets & Highways. Code, 10000 et seq.): the Municipal Improvement Act of 1913 is the most frequently utilized regulation for assessment proceedings in California. It is ordinarily used in combination with the Improvement Bond Act of 1915 to allow bond financing of the levied assessment. The improvements authorized for construction by the 1913 Act include virtually any public infrastructure improvement with a life of more than five years. However, as a result of their general benefit orientation, services such as school and fire are more difficult to fund.

Assessment proceedings may be initiated by a petition of the property owners within the boundaries of the proposed assessment district. An assessment district proceeding may also be initiated by direct action of the city council using the steps and provisions of The Special Investigation, Limitation of Majority Protest Act of 1931. Either method requires compliance with Proposition 218

Under 1913 Act assessment proceedings, the improvement costs are levied against each of the individual properties within the benefit area on the basis of the benefit each parcel receives from those improvements. The property owner may pay the assessment amount in cash or allow a lien to be placed on the property in the amount of the benefit assessment. Then the property owner may make payments over a specified period typically varying between 10 and 30 years to retire the debt issued to pay for the improvements. Through the issuance of tax-exempt bonds payable over a period of years, the property owners are provided the advantages of a lien at a favorable interest rate for the improvements.

## **The Landscaping and Lighting Act of 1972**

Authorized pursuant to (Streets & Highways, Code, 22500 et seq.): lets cities, counties and special districts impose assessments on benefited properties to finance land acquisitions, construction of landscaping, street lighting, traffic signals, parks, street trees, sidewalk repair, recreational improvements; as well as the maintenance and servicing of any of these improvements including graffiti abatement.

The cost of the improvements may be collected on a pay-as-you-go basis or through bond financing where annual assessments pay off the debt over a period not to exceed thirty years. In order to fund a larger capital improvement, proceeds may be held aside for a stated number of years in certain circumstances. The annual assessments are paid at the same time and in the same manner as property taxes.

## **The Benefit Assessment Act of 1982**

Authorized pursuant to (Government Code, 54703 et seq.): allows cities, counties and special districts to levy an annual assessment on all benefited properties within its jurisdiction for drainage, flood control, or street light services. It also provides the only means available for a general law city to levy an annual benefit assessment for street maintenance.

Once the authority to assess has been established, the annual assessments are levied by ordinance or resolution. The actual authority to issue bonds is not included, but the code is rather limited in procedural details as well. There are no provisions for annexations or a requirement to annually prepare an engineer's report, although most legal counsel would recommend the process. In general, maintenance and operation of drainage, flood control and street lighting services and/or the installation of drainage facilities, and/or the maintenance of streets, roads or highways may be funded annually after the initial formation of a district.

## **Fire Suppression Assessments**

Authorized pursuant to (Government Code, 50078 et seq.): lets cities, counties, special districts, and county service areas charge assessments to purchase and maintain fire fighting facilities and equipment and to pay related salaries. Combined with Proposition 218, the government code provides the authority to form a special district to levy an assessment for funding fire suppression services if voter approval is received. The assessment can fund the purchase, operation and maintenance of fire suppression equipment or apparatus; fire suppression personnel salaries and benefits; and, in some cases, even fire stations.

The assessment may be levied on any parcel, whether or not the service is actually used so long as benefit can be demonstrated. The fire suppression assessment per parcel is based on the special benefit received by the property assessed. The assessment engineer develops uniform schedules and rates from which the maximum amount of annual assessment for any property may be determined. Benefit may be based on the type of property use, the risk classification of the structures or other improvements on the property, or the use of the structures on the property. As a result of varying benefit, zones or areas of benefit may be established within the boundaries of the district to allow for varying assessments.

## **The Parking and Business Improvement Area Law of 1989**

Authorized pursuant to (Streets & Highways. Code, 36500 et seq.); allows cities and counties to fund parking facilities, public decorations, and the promotion of public events and business activities. Unlike most assessment districts, this assessment is on business rather than the property and the revenue is usually collected in conjunction with business licenses.

## **The Property and Business Improvement District Law of 1994**

Authorized pursuant to (Streets & Highways. Code, 36600 et seq.); lets cities and counties fund parking facilities, public decorations, and the promotion of public events and business activities. This law allows commercial property owner to establish an assessment district through a petition process in conjunction with the substantive and procedural restrictions of Article XIIIID, Sections 4 of the California Constitution to assess themselves for related improvements and services that enhance business opportunities and commercial areas. Different than the Parking and Business Improvement Area Law of 1989, this statute provides for the collection of assessments on the tax roll and provides a very broad range of improvements and services, many of which are not typically authorized to Cities.

## **Common Features of Assessment Acts**

Charter cities may enact their own procedural ordinances under their charter powers for assessment district formation and financing. Such proceedings must comply, however, with Article XVI, Section 19 and Article XIIIID, Sections 4 of the California Constitution and generally are based closely on existing statutes.

Procedures by which a City may establish an assessment district and impose a benefit assessment vary depending on which law is utilized, however common to the creation of most assessment districts are the following activities.

- **Initiation:** Typically initiated by a petition signed by the property owners to which the proposed assessment will be levied, or by an action of the City Council. Various laws have different requirements, but generally, initiating the process requires one method or the other, rarely both.
- **Engineers Report:** A registered professional engineer prepares a report providing a description of the improvements to be financed, a cost estimate of the improvements, and an assessment diagram mapping the districts boundaries, zones and parcels. The report identifies the method of allocating the annual assessments to each of the parcels within the district, and the proposed maximum annual assessment necessary to pay the net costs that are not reimbursed by other sources.

- **Resolutions:** A series of resolutions declaring the intention to form the assessment district, levy the assessments, order the work of improvements, issue bonds to finance the improvements, approve the engineer's report and the setting of public hearings are presented to the City Council for approval. Most assessment districts, but not all, require an annual public hearing, approval of an updated engineer's report and the various resolutions to levy the assessments that fiscal year.
- **Notice of Public Hearings:** A notice of public hearing must be mailed to all property owners within the proposed district.
- **Protest:** Although each of the various benefit assessment acts provides for protest procedures, each is superseded by the state Constitution, which requires that an assessment ballot proceeding be conducted for all types of benefit assessments imposed on real property. If "no" votes representing more than 50% of the total proposed assessment outweigh the "yes" votes, the assessment is defeated.
- **Issuance of Improvement Bonds:** The city issues bonds secured by the unpaid assessments.
  - **Cash Collection:** Notice is given to property owners that they have a specific amount of time in which to pay their assessments in cash. If the assessments are not paid within that time, the City may issue bonds secured by all assessments that remain unpaid.
  - **Recordation:** The assessment roll is recorded in the office of the County Recorder and with the City Clerk or Street Superintendent, and the assessments become liens against the properties upon which they were levied.

## STRATEGIC CONSIDERATIONS

### Financial Considerations for the City

The preceding overview of the City's expenditures and the discussion on various financing mechanisms provides much needed background information for determining the types of improvements, facilities and services that can be provided by various taxes and assessments. However, in order to make a determination of which financing options are the most appropriate and which of these improvements and services can be addresses, a reference to the annual cost to individual property owners is essential. The following table provides various scenarios of the revenues that could be generated either by an assessment or special tax. The allocations presented are based on a preliminary evaluation of property data on parcels within the City and demonstrate the amount of revenue that could be generated using a simple "per parcel" charge versus the revenues that would be generated utilizing a weighted allocation based on proportional benefit.

The allocation based on benefit is a typical method of apportionment based on land use classifications. However, it should be noted that this is merely a sample benefit allocation. The actual apportionment to various properties could change significantly depending on the improvements or services the charge is financing. For example, if you were financing the maintenance of open space areas the apportionment to non-residential properties would likely be less than the allocation shown in the table because their benefit compared to a single-family residential property would be proportionately less than the allocation presented here. On the other hand, if the financing was for police services, the allocation to non-residential properties may be significantly more due to a higher service need. The following are footnotes applicable to the tables.

(1) Multi-Family includes Residential properties that have more than one residential unit including Single Residents with a Guest House, Duplexes, Apartments, etc.

(2) The Unit count is a low estimate: For most parcels designated as apartments, the number of units was not available at this time. The County classifies Apartments by unit ranges (5-10; 11-20; 21-40 etc). If County or City data had a unit count that number was applied, otherwise the parcel was assigned one less unit than the minimum unit count within the range. For example, an apartment within the 21-40 unit range was assigned 20 units.

(3) Mixed Use Primarily Residential applies to those properties that have some commercial use, but the County also designated the property with a residential use with 2 or more units. Similar parcels for which only one unit or no unit information was provided has been treated as Developed Non-Residential for purposes of this analysis

(4) The available County data generally does not provide acreage information on parcels less than one (1) acre and may not always provide the acreage information on parcels that are in fact greater than an acre. This analysis assumes that a minimum acreage is applicable to a particular land use even if the County indicates the acreage is not zero, but less than the minimum acreage to be applied. The acreage data in these cases reflect the minimum acreage for each parcel not the actual acreage.

(5) Exempt Parcels include most government owned properties, open space areas, common areas or similar properties for which the County considers Non-Taxable

The following table is based on \$100 per single-family resident

| General Land Use Classification                        | Parcel Count  | Taxable Units        | Taxable Acres         | Benefit Units                  | Revenue @ \$100 per Household Using Benefit Units | per Parcel         |
|--|---------------|----------------------|-----------------------|--------------------------------|---|--------------------|
| Single-Family Residential (SFR)                        | 12,477        | 12,477               | N/A                   | @ 1.00 per Unit                | \$1,247,700                                       | \$1,247,700        |
| Multi-Family Residential <sup>(1)</sup>                | 1,501         | 5,738 <sup>(2)</sup> | N/A                   | @ 0.75 per Unit                | \$430,350   | \$150,100          |
| Mobile Home Parks                                      | 3             | 124                  | N/A                   | @ 0.75 per Unit                | \$9,300   | \$300              |
| Mixed Use Primarily Residential <sup>(3)</sup>         | 10            | 29                   | N/A                   | @ 0.75 per Unit                | \$2,175   | \$1,000            |
| Vacant Residential less than 1 acres                   | 351           | N/A                  | 351.00 <sup>(4)</sup> | @ 0.50 per Parcel              | \$17,550  | \$35,100           |
| Vacant Residential greater or equal to 1 acre          | 7             | N/A                  | 31.25                 | @ 0.50 per Acre (Minimum 1BU)  | \$1,564   | \$700              |
| Developed Non-Residential less than 0.50 acre          | 766           | N/A                  | 383.00 <sup>(4)</sup> | @ 4.00 per Acre (Minimum 2 BU) | \$153,200   | \$76,600           |
| Developed Non-Residential greater or equal to .50 acre | 372           | N/A                  | 452.70                | @ 4.00 per Acre                | \$181,080   | \$37,200           |
| Vacant Non-Residential less than 0.50 acre             | 138           | N/A                  | 69.00 <sup>(4)</sup>  | @ 2.00 per Acre (Minimum 1 BU) | \$13,800  | \$13,800           |
| Vacant Non-Residential greater or equal to .50 acre    | 70            | N/A                  | 110.10                | @ 2.00 per Acre                | \$22,020  | \$7,000            |
| Exempt <sup>(5)</sup>                                  | 498           | N/A                  | 0.00                  | @ 0.00 per Parcel              | \$0   | \$49,800           |
| <b>Totals</b>  | <b>16,193</b> |                      | <b>1,397.05</b>       | <b>20,787.39</b>               | <b>\$2,078,739</b>                                | <b>\$1,619,300</b> |



The following table is based on \$100 per single-family resident

| General Land Use Classification                        | Parcel Count  | Taxable Units        | Taxable Acres         | Benefit Units                           | Revenue @ \$150 per Household Using Benefit Units | per Parcel         |
|--|---------------|----------------------|-----------------------|---|---|--------------------|
| Single-Family Residential (SFR)                        | 12,477        | 12,477               | N/A                   | 12,477.00 @ 1.00 per Unit               | \$1,871,550                                       | \$1,871,550        |
| Multi-Family Residential <sup>(1)</sup>                | 1,501         | 5,738 <sup>(2)</sup> | N/A                   | 4,303.50 @ 0.75 per Unit                | \$645,525   | \$225,150          |
| Mobile Home Parks                                      | 3             | 124                  | N/A                   | 93.00 @ 0.75 per Unit                   | \$13,950  | \$450              |
| Mixed Use Primarily Residential <sup>(3)</sup>         | 10            | 29                   | N/A                   | 21.75 @ 0.75 per Unit                   | \$3,263   | \$1,500            |
| Vacant Residential less than 1 acres                   | 351           | N/A                  | 351.00 <sup>(4)</sup> | 175.50 @ 0.50 per Parcel                | \$26,325  | \$52,650           |
| Vacant Residential greater or equal to 1 acre          | 7             | N/A                  | 31.25                 | 15.64 @ 0.50 per Acre (Minimum 1BU)     | \$2,346   | \$1,050            |
| Developed Non-Residential less than 0.50 acre          | 766           | N/A                  | 383.00 <sup>(4)</sup> | 1,532.00 @ 4.00 per Acre (Minimum 2 BU) | \$229,800   | \$114,900          |
| Developed Non-Residential greater or equal to .50 acre | 372           | N/A                  | 452.70                | 1,810.80 @ 4.00 per Acre                | \$271,620   | \$55,800           |
| Vacant Non-Residential less than 0.50 acre             | 138           | N/A                  | 69.00 <sup>(4)</sup>  | 138.00 @ 2.00 per Acre (Minimum 1 BU)   | \$20,700  | \$20,700           |
| Vacant Non-Residential greater or equal to .50 acre    | 70            | N/A                  | 110.10                | 220.20 @ 2.00 per Acre                  | \$33,030  | \$10,500           |
| Exempt <sup>(5)</sup>                                  | 498           | N/A                  | 0.00                  | 0.00 @ 0.00 per Parcel                  | \$0   | \$74,700           |
| <b>Totals</b>  | <b>16,193</b> |                      | <b>1,397.05</b>       | <b>20,787.39</b>                        | <b>\$3,118,109</b>                                | <b>\$2,428,950</b> |

Based on a recent study of the roads and streets within Santa Cruz, there is clearly a need for significant dollars to bring the roads and streets within the City up to a more satisfactory level. Although there are several financing tools that could be utilized, one of which could be a special parcel tax. However, this venue would require a two-third-voter approval, while utilizing a benefit assessment district such as the Improvement Act of 1913 and/or the Benefit Assessment Act of 1982. The 1913 Act can provide for construction and rehabilitation and could be bonded using the 1915 Act so all necessary dollars would be available for the construction fund immediately. However since, the 1913 Act does not actually provide for on-going maintenance, a component of the assessment could be implemented for operation and maintenance (O&M) utilizing the Benefit assessment act of 1982. However this district is structured or if the City chooses to utilize bond financing for any other improvement and statute that allows bonded assessments.

The following table provides a typical debt service schedule at current rates. This debt service schedule assumes that approximately \$26,750,000 will be needed for construction. With financing costs (essentially closing costs), the total bond issue would be \$30,000,000 over 30 years. To meet the debt service payments, the average annual assessment revenue from the district would require approximately \$2,190,000. This is within the revenue ranges previously presented, and at \$150 per benefit unit there would likely be more than enough funds generated to meet debt service and provide for an O&M program.

Generic Financing Model  
Series 2005  
(\$30 MM & 30 Years)  
Gross Debt Service Schedule

| Date          | Principal                        | Rate  | Interest             | Period<br>Total      | Annual<br>Total      |
|---------------|----------------------------------|-------|----------------------|----------------------|----------------------|
| 6/1/2005      |                                  |       | 1,295,955.00         | 1,295,955.00         |                      |
| 3/1/2006      |                                  |       | 863,970.00           | 893,970.00           | 2,189,925.00         |
| 9/1/2006      | 30,000                           | 3.000 | 863,520.00           | 863,520.00           |                      |
| 3/1/2007      |                                  |       | 863,520.00           | 1,323,520.00         | 2,187,040.00         |
| 9/1/2007      | 460,000                          | 3.600 | 855,240.00           | 855,240.00           |                      |
| 3/1/2008      |                                  |       | 855,240.00           | 1,335,240.00         | 2,190,480.00         |
| 9/1/2008      | 480,000                          | 4.000 | 845,640.00           | 845,640.00           |                      |
| 3/1/2009      |                                  |       | 845,640.00           | 1,345,640.00         | 2,191,280.00         |
| 9/1/2009      | 500,000                          | 4.250 | 835,015.00           | 835,015.00           |                      |
| 3/1/2010      |                                  |       | 835,015.00           | 1,355,015.00         | 2,190,030.00         |
| 9/1/2010      | 520,000                          | 4.500 | 823,315.00           | 823,315.00           |                      |
| 3/1/2011      |                                  |       | 823,315.00           | 1,363,315.00         | 2,186,630.00         |
| 9/1/2011      | 540,000                          | 4.700 | 810,625.00           | 810,625.00           |                      |
| 3/1/2012      |                                  |       | 810,625.00           | 1,380,625.00         | 2,191,250.00         |
| 9/1/2012      | 570,000                          | 4.850 | 796,802.50           | 796,802.50           |                      |
| 3/1/2013      |                                  |       | 796,802.50           | 1,391,802.50         | 2,188,605.00         |
| 9/1/2013      | 595,000                          | 5.000 | 781,927.50           | 781,927.50           |                      |
| 3/1/2014      |                                  |       | 781,927.50           | 1,406,927.50         | 2,188,855.00         |
| 9/1/2014      | 625,000                          | 5.100 | 765,990.00           | 765,990.00           |                      |
| 3/1/2015      |                                  |       | 765,990.00           | 1,420,990.00         | 2,186,980.00         |
| 9/1/2015      | 655,000                          | 5.250 | 748,796.25           | 748,796.25           |                      |
| 3/1/2016      |                                  |       | 748,796.25           | 1,438,796.25         | 2,187,592.50         |
| 9/1/2016      | 690,000                          | 5.400 | 730,166.25           | 730,166.25           |                      |
| 3/1/2017      |                                  |       | 730,166.25           | 1,460,166.25         | 2,190,332.50         |
| 9/1/2017      | 730,000                          | 5.500 | 710,091.25           | 710,091.25           |                      |
| 3/1/2018      |                                  |       | 710,091.25           | 1,480,091.25         | 2,190,182.50         |
| 9/1/2018      | 770,000                          | 5.650 | 688,338.75           | 688,338.75           |                      |
| 3/1/2019      |                                  |       | 688,338.75           | 1,503,338.75         | 2,191,677.50         |
| 9/1/2019      | 815,000                          | 5.750 | 664,907.50           | 664,907.50           |                      |
| 3/1/2020      |                                  |       | 664,907.50           | 1,524,907.50         | 2,189,815.00         |
| 9/1/2020      | 860,000                          | 5.800 | 639,967.50           | 639,967.50           |                      |
| 3/1/2021      |                                  |       | 639,967.50           | 1,549,967.50         | 2,189,935.00         |
| 9/1/2021      | 910,000                          | 5.850 | 613,350.00           | 613,350.00           |                      |
| 3/1/2022      |                                  |       | 613,350.00           | 1,573,350.00         | 2,186,700.00         |
| 9/1/2022      | 960,000                          | 5.950 | 584,790.00           | 584,790.00           |                      |
| 3/1/2023      |                                  |       | 584,790.00           | 1,604,790.00         | 2,189,580.00         |
| 9/1/2023      | 1,020,000                        | 6.000 | 554,190.00           | 554,190.00           |                      |
| 3/1/2024      |                                  |       | 554,190.00           | 1,634,190.00         | 2,188,380.00         |
| 9/1/2024      | 1,080,000                        | 6.000 | 521,790.00           | 521,790.00           |                      |
| 3/1/2025      |                                  |       | 521,790.00           | 1,666,790.00         | 2,188,580.00         |
| 9/1/2025      | 1,145,000                        | 6.000 | 487,440.00           | 487,440.00           |                      |
| 3/1/2026      |                                  |       | 487,440.00           | 1,702,440.00         | 2,189,880.00         |
| 9/1/2026      | 1,215,000                        | 6.000 | 450,990.00           | 450,990.00           |                      |
| 3/1/2027      |                                  |       | 450,990.00           | 1,735,990.00         | 2,186,980.00         |
| 9/1/2027      | 1,285,000                        | 6.000 | 412,440.00           | 412,440.00           |                      |
| 3/1/2028      |                                  |       | 412,440.00           | 1,777,440.00         | 2,189,880.00         |
| 9/1/2028      | 1,365,000                        | 6.000 | 371,490.00           | 371,490.00           |                      |
| 3/1/2029      |                                  |       | 371,490.00           | 1,816,490.00         | 2,187,980.00         |
| 9/1/2029      | 1,445,000                        | 6.100 | 327,417.50           | 327,417.50           |                      |
| 3/1/2030      |                                  |       | 327,417.50           | 1,862,417.50         | 2,189,835.00         |
| 9/1/2030      | 1,535,000                        | 6.100 | 280,600.00           | 280,600.00           |                      |
| 3/1/2031      |                                  |       | 280,600.00           | 1,910,600.00         | 2,191,200.00         |
| 9/1/2031      | 1,630,000                        | 6.100 | 230,885.00           | 230,885.00           |                      |
| 3/1/2032      |                                  |       | 230,885.00           | 1,955,885.00         | 2,186,770.00         |
| 9/1/2032      | 1,725,000                        | 6.100 | 178,272.50           | 178,272.50           |                      |
| 3/1/2033      |                                  |       | 178,272.50           | 2,013,272.50         | 2,191,545.00         |
| 9/1/2033      | 1,835,000                        | 6.100 | 122,305.00           | 122,305.00           |                      |
| 3/1/2034      |                                  |       | 122,305.00           | 2,067,305.00         | 2,189,610.00         |
| 9/1/2034      | 1,945,000                        | 6.100 | 62,982.50            | 62,982.50            |                      |
| 3/1/2035      |                                  |       | 62,982.50            | 2,127,982.50         | 2,190,965.00         |
| 9/1/2035      | 2,065,000                        | 6.100 |                      |                      |                      |
| <b>TOTALS</b> | <b>30,000,000 <sup>(1)</sup></b> |       | <b>35,678,495.00</b> | <b>65,678,495.00</b> | <b>65,678,495.00</b> |

## Strategic Considerations

In a simple outline format, the following provides key points the City of Santa Cruz needs to consider in their deliberations on financing tools and which services and/or improvements should be targeted with limited resources.

### Voting Thresholds

|                               |                 |
|-------------------------------|-----------------|
| General taxes                 | 50.1%           |
| Special taxes                 | 66.7%           |
| Assessments                   | 50.1%           |
| Development impact/ user fees | None            |
| Property-related fees         | Election/notice |

### Strategic Considerations

- Target one type of improvement and/or service or finance multiple types
- Fully finance all of one needed budget item or partially fund many services
- Does public opinion support a charge for the improvement or service
- If utilizing a benefit assessment, is there a "special" benefit and is that benefit the same throughout the City
- Will the voters or property owners see the value of their financial support (Results)
- Do we need a citywide district or can local districts be used for different purposes (localized assessment districts are more common than citywide)
- Are we forming appropriate assessment districts for new developments for the added improvements they are creating that impacts the City (i.e. landscaping, lighting, storm drain maintenance, street maintenance)

### Long-term Financing Considerations

- Sunset clause
- Inflation
- Appeals process

## Strategic Planning

Regardless of funding option(s), must do strategic planning:

- 6 to 9 months time (rule of thumb) for planning stage through election/public hearing.
- Community meetings, focus groups, etc.
- City Council may consider forming a citizen advisory committee to solicit/form recommendations (done in concert with Staff and/or consultant)
- City cannot spend funds to support a revenue measure, however, some amount of funding for polling, surveys, consultants, etc. is allowable (check with City Attorney)
- volunteer efforts on part of city staff, chamber, senior citizens groups, etc. are critical to a successful effort

## Final Considerations

- Tax/Assessment structure and implementation
  - ◊ determine what land use types should pay and at what rates in order to raise the funds yet make it passable by the voters
- Consensus among participants
  - ◊ Community
  - ◊ City Council
  - ◊ City Staff

It is often difficult to win voter approval for revenue measures, whether they are taxes, assessments or property-related charges. If significant public opposition develops, it can sink an effort even if the funding mechanism selected requires the approval of only a simple majority of those voting.

An additional hurdle for the City is the legal constraint placed on public agencies regarding the use of public resources on campaign or advocacy-based activities such as promoting a "yes" vote on a potential assessment district. However, the City can legally undertake significant public education and outreach so that constituents have a high level of awareness and understanding of the needs prior to the election or ballot proceeding. Even though the constraints exist, a well-designed financing plan partnered with opinion polling and effective community outreach efforts can greatly enhance the chances of success in securing community support and approval for the City's projects.